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Dear Tim,

Modification Proposal 0209 – Rolling AQ

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above Modification Proposal.

SSE does not support Modification Proposal 0209.

The current AQ Review process is a tried and tested process that has worked well for over a decade. It is known that there are data inaccuracies within the gas industry and during the current AQ review process xoserve has the time and resources to work through spurious AQ calculations and to not amend these AQ values. Furthermore, shippers have, during the AQ Review, a considerable amount of time to review and amend incorrect AQ calculations, which in some cases may largely have been the result of data submitted by the previous shipper. The rolling AQ process would take the time out of this process and would potentially allow more incorrect data to enter settlements. A process currently exists to allow LSPs to be amended outside of the AQ review timescale.

One of the main arguments put forward for this modification was that AQs have over the past few years been too high and that the current process is too slow to react to them. However, a large amount of this AQ overstating has been due to the fact that the composite weather variables (CWVs) used in the AQ calculation are too high and a 17 year weather model is being used, which would still overstate AQ values under a rolling AQ process. With the change in CWVs expected in 2010 and a move to a 12 or 8 year model, this upward bias on AQs is very likely to be largely eliminated.

The increased workload and resulting costs to the industry of this new process are not insignificant, and whilst xoserve have quoted increased costs of between a quarter and half a million pounds per annum, in addition to the development costs, there are likely to be increased costs for each shipper resulting in significant overall industry costs which, ultimately, will have to be picked up by the customer for potentially very little benefit. It is interesting to note that within the modification proposal no attempt has been made to estimate the misallocation of gas between shippers that will be made more accurate as a result of this proposal or to quantify the benefits, other than stating that as the AQ changes more often it will 'lead to energy being more accurately allocated.'

One of the arguments put forward for the rolling AQ process is the ability of shippers to update an AQ for manifest change in usage. SSE agrees with this concept, but it could be achieved outside of this process, which also has a time lag built into it.

One of the rationales for this change proposal is that the average AQ is ‘18 months old at the time it is used.’ We challenge this claim, indeed the maximum period may be 18 months, but it is certainly not the average period as meter readings, could in theory be taken less than 2 months before the start of the new gas year, and as the current AQ process will, in most cases, use the most recent read the average is likely to be significantly less than half of the 18 months quoted.

The modification proposal still requires shippers to be proactive in sending reads through to xoserve to update their AQ values. Under both the current AQ regime and the proposed rolling AQ regime if shippers are proactive in sending reads and carrying out their AQ review, the AQ on 1st October each year, in a vast majority of cases for smaller supply points (SSPs), will be based on the same meter readings. Given the average 6 monthly reading interval for most SSP customers, a majority of gas within this sector will be consumed during the gas year before AQs would be updated under the rolling AQ process. Most of the changes to SSP AQ values under the rolling regime are likely to make AQ values more up to date in the summer months when very small amounts of gas are being used. Larger supply point AQs that are read monthly will have quicker AQ amendments, but as shippers are currently able to amend these AQs and the supply points are reconciled the benefits are likely to be small.

SSE believes that the costs and risks involved in a rolling AQ process would outweigh the possible benefits of the process. As has been shown under the current AQ review process a significant number of customers do not change their gas demand patterns on an annual basis and we believe that the changes in allocation amongst shippers under the two regimes are likely to be very small due to the timings of the updates to AQ values and the ‘swings and roundabouts’ nature of any AQ changes both upwards and downwards.

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

SSE does not believe that updating AQ values more often would give any benefit to transporters as planning decisions are taken often years in advance and are based on actual gas throughputs and demand models rather than being a summation of current AQ values.

Standard Special Condition A11.1 (c): *so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

SSE does not believe that updating AQ values more frequently would improve forecasting of peak load demand which is required to be catered for several years in advance.

Standard Special Condition A11.1 (d): *so far as is consistent with subparagraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

The commodity costs reflect only a very small amount of the total transportation charges incurred by shippers, and we believe that any benefits due to reductions in reconciliation volumes would be very small and not something that would encourage competition amongst shippers.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely,

Mark Jones