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Mr John Bradley,
Joint Office of Gas Transporters
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8th June 2009

Dear John,

RE: MODIFICATION PROPOSAL 0224

British Gas does not support the implementation of this modification proposal. The continued monopoly provision of Daily Metered meter reading services is a cause of concern for many Shippers and we would agree that this needs to be reviewed as costs associated with this service are significantly higher than for comparable costs which Shippers currently procure on a commercial basis in the AMR market.

However, we believe that this proposal is significantly flawed in that it seeks to impose development costs on parties that do not intend to take up the service. This modification creates misallocation of costs and a barrier to competition by limiting access to a new market. It therefore does not better facilitate competition. It is also questionable as to whether actual benefits shall outweigh costs. We have set out our reasoning in further detail below.

1. Recovery of Development Costs

GdF are proposing that development costs for this service are recovered from all eligible meter points based on a fixed 'one-off' cost which varies by EUC band. The on-going service for Meter Points Nominated as DME would then be on a User Pays basis. If implemented, this proposal would impose significant development costs of over £565k based upon xoserve's ROM, upon all Shippers with elegible meter points, regardless of whether or not they intend to take up the service. This is clearly inequitable as the majority of the development costs would be borne by Shippers who have been clear that they do not intend to take up this service and will derive no benefit from it.

GdF's intention in this proposal is to target the recovery of development costs from sites which could take up the service and so benefit from it. However, throughout the development of this proposal a number of Shippers have made it clear that despite having a signifincant market share in EUC bands 4-9 they have no intention of taking this service up. There are limited advantages nominating a site in EUC band 4 or 5 as daily metered and we would only suggest that a relatively small number of sites whos consumption pattern falls outside the average profile in this band would receive any benefit from this proposal.

This approach is not compatible with the User Pays principles. The xoserve Services Workgroup in their Final Report developed a set of principles for identifying candidates for User Pays Services. This proposal does not satisfy two of the key criteria, firstly that;

"*Users should have discretion on whether or how to use the service so that any additional costs incurred by xoserve are charged to the appropriate User and the quality of the service could be reflected in a different level of usage*;"

and secondly;

"A significant proportion of the cost to deliver the service line should be usage dependent, otherwise there are inappropriate incentives on Users;"

It would set a dangerous precedent whereby Shippers can introduce change with a benefit to only a small minority of Market Participants and have the development costs cross-subsidised by Shippers who have no interest in taking up the service.

Throughout the development of the modification we, and others have argued that the costs of system development associated with this change should be borne by those receiving a benefit from it – the users. GdF have chosen not to take this approach as they are concerned that the take up levels for this may be low, meaning that the User Pays Charge for this service would need to be increased from the proposed £94 per year to recover the development costs.

2. Creation of a Competitive Market Barrier

The 'Ceiling Limit' on the number of DME Nominations would, once reached, create a competitive barrier, which would prevent new Supply Points or New Market entrants from participating in this market, meaning that where there are New Supply Points consuming gas during low SAP periods would be forced to settle based on the NDM average profile or elect into the DM market at significantly higher costs.

3. Demand Side Response

If implemented this proposal may encourage a small number of sites to participate in providing additional Demand Side Response during a supply emergency. However, it should be understood that these sites can currently provide a Demand Side Response, but that this is not reflected in their energy allocation. Also, UNC Q.1.6 specifies that Large Firm Supply Points (i.e. with a SPAQ greater than 732,000Kwh) are currently required to cease consumption durign a supply emergency before other categories of consumer. To this end Q. 2.3.3 requires Shippers to provide 24 hour contact details for such sites.

GdF believe that this would provide a verifiable mechanism for volume cessation during a supply point emergency. Whilst we accept that this is true, we would quesition its value. This proposal does not change the status of Supply Points during an emergency under UNC Section Q and so if Firm Load Shedding where nessecary ***all*** Large Firm Supply Points would be required to cease consumption in both the DME and NDM markets. Having the ability to confirm that they did ***after*** the event would be of little or no value in managing and emergency.

4. Reduction in 'Reconciation Risk'

GdF claim that this propsal would 'Reduce reconciliation risk' associated with the NDM market. However, we would suggest that as there sites would have AMR devices fitted there should be no reconcilation risk as Shippers are able to submit regular meter reads to xoserve such that the monthly allocation of energy can be based on actual meter readings.

5. Carbon Reductions

GdF claim that this proposal has the potential to reduce carbon emissions through energy management. We would contend that by facilitating increased access to gas at low SAP prices, this proposal would at best shift consumption for some consumers and at worst increase overall consumption and so carbon emissions.

If you have any questions regarding this response, please don't hesitate to contact me on 07789 570 610 or by email at mitch.donnelly@britishgas.co.uk

Yours sincerely,

Mitch Donnelly
Regulatory Manager – British Gas