



Tim Davis  
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Dear Tim

**UNC Modification 228 and 228A - Correct Apportionment of NDM Error - Energy**

Thank you for the opportunity to respond to the above Modification Proposals. ScottishPower has submitted one response, which includes our views on both Modifications Proposals.

This response is non-confidential and ScottishPower are happy for this to be posted on your website.

ScottishPower support the implementation of both Modification Proposals but would state a preference for Modification 228. Detailed below are our reasons for this decision.

Modifications 194 and 194A, which are currently awaiting Ofgem determination, are similar in nature in that both have proposed a framework and set of principles for the re-apportionment of unidentified gas over defined market sectors. Modification 194 seeks to directly link the value of the energy re-allocation to RbD whereby Modification 194A is based on pre-determined fixed values. At this time no values have been populated within either "Allocation Table" with further Modifications being required to facilitate this purpose. Modifications 228 and 228A can be viewed as enabling Modifications and as such introduce the methodology to be used in calculating the value of RbD error and to facilitate the population of the individual Allocation Tables.

ScottishPower has previously raised our concerns regarding the economic uncertainty and potential cross-subsidy between the SSP and LSP market sectors, which result from the current RbD allocations regime. When RbD was introduced in 1998 it was anticipated that the volumes of energy requiring reconciliation would decrease with improvements to data quality. However, large volumes of energy (RbD error) not directly associated with genuine reconciliation continue to be allocated to RbD with the costs related to these volumes being borne solely by the SSP market sector. Industry data analysis demonstrates that the current RbD allocation regime is flawed as other market sectors are directly contributing to the overall RbD error.

It has also been recognised that it is extremely difficult to accurately quantify the volume of unaccounted for gas. We believe that the methodology proposed under Modifications 228 and 228A offers a pragmatic approach to the re-apportionment of RbD error to the LSP market sector. These Modifications use the same approach when determining the overall annual movement of energy between the SSP and LSP market sectors when calculating the value of genuine reconciliation i.e. the outputs of Modification 81 data resulting from the 2008 AQ Review. While the characteristics of both Modifications are similar, the fundamental difference lies in the method to be used for re-apportionment.

### **Modification 228**

ScottishPower support the intention of both Modifications but has stated a preference for the principles proposed under Mod 228 over those under 228A.

Ofgem commented within their determination notice for Modification 115 and 115A, that they considered *“that it would be appropriate for each contributing factor to RbD costs to be individually assessed and if possible quantified”*. Modification 194 Workgroup, undertook to uncover the key areas that contribute to RbD error. The outputs from this Workgroup have demonstrated that failures within a number of key industry processes and procedures impact the volume of energy that flows through RbD. These failures are not unique to the SSP market sector and therefore it is no longer acceptable that this market sector should bear all the risks and associated costs.

Work undertaken by the Modification 208 Review Group, has recognised that failures in the provision of timely and accurate information from third parties can directly impact the proactive management of key issues such as new connections, iGT CSEP updates and the detection and investigation of theft instances. The Group recommends that a coordinated approach, involving all participants, is required if specific problems are to be overcome and effectively addressed. In order to tackle the underlying problems that contribute to failures and to increase the overall accuracy of energy allocations, detailed discussions are required engaging all responsible parties with a clear objective to establish robust operating practices and accountabilities.

Detailed industry analysis demonstrates that the value of RbD error varies month on month in relation energy allocations and the level of genuine reconciliation. In turn, the energy associated with the key contributing factors fluctuates in accordance with the number of occurrences, the period of time they remain unresolved and the associated volume of energy offtaken.

Modification 228 has proposed a methodology and set of principles to be used to determine the proportion of RbD that should be applied against LSP Shippers. This modification proposes to populate percentage values against each contributing factor within the RbD Allocation Table and thereafter to utilise the existing RbD regime to re-apportion energy over the LSP market sector. On an annual basis, xoserve will be required to recalculate the value of genuine reconciliation and make the necessary adjustments to the theft value, which is the balancing factor. We believe that this approach will ensure that both the SSP and LSP market sectors are accountable for the contribution that individual issues make to RbD error. We believe that this is a logical approach to the re-apportionment of RbD error and as a consequence believe that it introduces the appropriate incentives for all Shippers and Suppliers to proactively seek for the timely resolution of failures that contribute to RbD.

ScottishPower accept that Modification 228 could be perceived as introducing a degree of uncertainty and risk to the LSP market sector. However, the SSP market has been subject to these risks since the introduction of RbD. We maintain that one market sector should not be disadvantaged to the perceived benefit of another. In our view it would be unjustified to persist in the discrimination of one market sector in order to continue the stability of another.

We believe that implementation of this Modification Proposal will improve the equitability of the current RbD allocation regime. In addition, we recognise that further improvements can be made to the settlements regime which will increase the accuracy of the energy settlements and give clearer visibility to the issues that are contributing to the RbD error. It is our view that the extension of individual meter point reconciliation would introduce retrospective settlement of energy costs to the SSP market sector and as such would further reduce any cross-subsidy of costs. In addition, Shippers would have increased assurance in settlement costs applied against their individual portfolio of customers. Increased performance measures in relation to meter reading submission would ensure that settlement standards are maintained with appropriate auditing to address any performance failures or deficiencies. The introduction of individual meter point reconciliation could continue to be supported by the framework and methodology proposed under Modifications 228 and 228A. Overall we believe that there would be increased visibility and transparency on the true value of RbD error, supported by detailed assumptions on the impact that individual issues make to the error.

The RbD verification process, which monitors the performance of RbD allocations, suggests that SSP Shippers have been invoiced more through RbD than their customers have consumed. The data produced from this verification process would support the introduction meter point reconciliation.

### **Modification 228A**

As Proposer of this Modification, we firmly support the principles used to calculate the annual movement of energy between the SSP and LSP market sectors and the volume of genuine reconciliation. This Modification adopts the same methodology as Modification 228 to calculate the volume of unknown gas. However, fixed volumes are calculated in accordance with the contribution that a particular issue makes to the value of unknown gas. These fixed energy values will be levied to Shippers as a proportion of an individual Shippers NDM LSP market share in a given month. We believe that it is appropriate to utilise the detailed data analysis undertaken within the Modification 194 Workgroup as the basis of estimating the contribution that each issue makes to the RbD error.

Modification 228A will apply pre-determined fixed volumes which are not directly aligned to RbD allocations. As mentioned previously we acknowledge some of the concerns raised by LSP Shippers surrounding the linking of the SSP and LSP segments through the proposed extension of RbD. We do accept that Shippers who employ robust management principles against their portfolio could argue that they will incur additional risk and costs as a result of the proposed solution. However, Shippers within the SSP market sector also employ such measures to manage their portfolios however their costs remain unduly influenced by the behaviour of other Shippers and the increased risk factors that currently apply while operating within this market. In our opinion,

Modification 228A introduces an improved allocation model for RbD costs than that offered by the current arrangement.

As with Modification 228, a mechanism has been proposed to amend the value of the theft element within the Allocation Table. As further investigations and data analysis are undertaken and new evidence comes to light regarding the impact that individual issues have on the value of unknown gas, modifications can be raised to amend the fixed values accordingly.

#### **Facilitation of Relevant Objectives**

We believe that both Modification Proposals further Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant Shippers and between relevant Suppliers:

ScottishPower believe that Modification 228 and 228A both introduce a much-improved basis for the allocation of RbD costs across all market sectors. We believe that it provides the appropriate incentives for all Shippers and Suppliers to proactively seek for the timely resolution of failures that contribute to RbD error. We are of the view that Modification 228 has increased benefits in that it further reduces the cross-subsidy between the LSP and SSP market sectors. New entrants will have greater certainty on costs and as a consequence competition between Shippers and Suppliers will be increased.

#### **Conclusion**

ScottishPower support the implementation of both Modification Proposals but would state a preference for Modification 228. We believe that implementation would ensure that energy costs are apportioned more equitably between Shippers. We believe that further improvements can be made to the settlements regime by introducing individual meter point reconciliation for all Supply Points. In addition, we believe that further work is required at an Industry level to address process and procedural failures that exist within key areas with the focus being placed on introducing further incentives, if required, to ensure the timely investigation and clearance of issues that contribute to RbD.

If you wish to discuss in further detail any of the comments made, please contact me at the above telephone number.

Yours sincerely

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ScottishPower