

Mr Bob Fletcher
Secretary, Modification Panel
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3LT

2nd December 2011

Dear Bob

RE: UNC Modification 0335(A) – “*Significant Offtake Meter Error – Shipper Payment Timescales*”.

1. I have set out below a consolidated response for both Modification Proposal 0335 and 0335A. British Gas supports the implementation of Modification Proposal 0335 but does not support the implementation of Modification Proposal 0335A.
2. When Offtake Meters malfunction the effect is generally to under-record the amount of gas passing through it. Figures published on the Joint Office website¹ show that 94% of Offtake Meter errors led to an under-recording of gas.
3. When these errors are identified and corrected, Shippers receive a charge for the previously unrecorded gas through the Reconciliation by Difference (RbD) mechanism. As this charge is made at short notice following the conclusion of the investigation, and in one instalment, the cash flow impacts can be material and are entirely out of the Shipper’s control.
4. These issues can be prevented from arising in the first place by the Network Owner investing in fit for purpose maintenance and inspection regimes. The available evidence shows that this may not be occurring however. In 2009 for example, 33 separate National Grid Offtake Meter errors were found to have been faulty, with the period of error found to be as much as seventeen months in some cases. The result was that the industry was exposed to significant cost.

¹ <http://www.gasgovernance.co.uk/sites/default/files/Measurement%20Error%20Register.xls>

5. We believe it is unfair for Shippers to bear the cash flow risks associated with inaccurate Offtake Meters and instead argue that these risks should flow to the Network Owners as they have both the responsibility and ability to prevent them. By doing so, the costs associated with failure would be correctly apportioned and an incentive would be created on the Network Owners to properly manage the assets in their portfolio, reducing overall risk in the market.
6. We therefore agree reform is needed, however believe that only Modification Proposal 0335 will achieve the desired benefits. Whilst we welcome the acknowledgement in Modification Proposal 0335A that there *are* cash flow impacts which need to be addressed, we disagree that relief from them should only be targeted at Suppliers with less than 100,000 Supply Points. Logically this would suggest that cash flow impacts either do not exist for Suppliers with more than 100,000 Supply Points, or that Suppliers of that size are less affected by them. Neither of these points are true.
7. As the RbD process is used to recover the amount of unrecorded energy associated with an Offtake Meter error, a Shipper's exposure to these costs is determined by their market share of aggregate Annual Quantity. This means that the impact on each Shipper is entirely proportional to the amount of gas used by their portfolio. It is therefore not correct to argue that large Shippers are less affected; all Shippers are equally as affected relative to their size. By way of illustration, we believe that our exposure to costs from the recent Aberdeen Offtake Meter error could be as much as £24m.
8. We also consider it to be highly interventionist, effectively benefiting some Shippers at the expense of other Shippers. Before MOD0335A could be implemented we would need to understand why any penalty on larger Shippers is justified from a policy point of view. We also note that imposing a limit of 100,000 Supply Points to this mechanism may act as a barrier to growth for some smaller Shippers.
9. MOD0335 addresses these issues by ensuring that the cash flow impacts of an Offtake Meter error are correct for *all* Shippers, and that the costs associated with managing that impact are borne by the party with the ability to control the costs; the Network Owner.
10. British Gas recognise that neither Proposal addresses the fact that the corresponding NTS Shrinkage credit related to an Offtake Meter error flows through on different timescales to the RbD charge. We believe that in an ideal world any proposal would align these timelines so that Shippers receive their credit at the same time as their debit. Having discussed this during the development of MOD0335 we appreciate this is not possible without some significant reform of the Network Owners licence however, so we regard MOD0335 as the best solution available today.

11. Our assessment of how these Proposals meet or do not meet the Relevant Objectives of Code are set out below.

(a): the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;

12. We believe that as MOD0335 places a cash flow incentive on the Network Owners to better maintain the Offtake Meters in their portfolio, this will lead to an increase in monitoring and maintenance, with consequential benefits to the efficient and economic operation of the pipeline system.
13. We accept that MOD0335A also has a benefit in this regard, but as the cash flow incentive created is substantially weaker, the benefits to are consequentially lower than those delivered by MOD0335.

(d) 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.

14. MOD0335 will reduce the impact of any single Offtake Meter error, and therefore reduce the risk faced by Shippers. We consider that the removal of the risk, and by reducing the likelihood of unexpected costs in the first place (through improved monitoring and maintenance) will have a beneficial impact on Shipper's ability to compete fairly, thus facilitating this Relevant Objective.
15. MOD0335A however explicitly discriminates in its effect between Shippers, distorting competition between Shippers either side of the arbitrary 100,000 Supply Points mark. This distortion of the competitive market will hinder Shippers' ability to compete fairly, and therefore work against this Relevant Objective.
16. If you have any queries relating to this representation, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson
Head of Market Design & New Markets, British Gas