

Representation

Draft Modification Report

0335: Offtake Metering Error – Payment Timescales

and

0335A: Significant Offtake Metering Error – Small Shipper Payment Timescales

Consultation close out date: 02 December 2011

Respond to: enquiries@gasgovernance.co.uk

Organisation: **Npower Limited**

Representative: Sasha Pearce

Date of Representation: 02 December 2011

Do you support or oppose implementation?

0335 - Support

0335A - comments

If either 0335 or 0335A were to be implemented, which would be your preference?

Prefer 0335

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

There have been a number of Offtake metering errors over the past 4 to 5 years, and the process of making adjustments to the measured energy and invoicing for these creates significant cashflow implications for Shippers and presents a barrier to competition. Under current arrangements, adjustments are included in a single invoice to Shippers regardless of the size of the error or the timescales across which it occurred. Modification 0335 will enable cost adjustments to be spread over a period that mirrors the length of time over which the Offtake Metering Error occurred. This will assist Shippers in managing cash flow.

In addition, Npower considers that by creating a financial impact on the Transporters in the event of an error, 0335 will incentivise them to take steps to avoid this and will therefore bring about an improvement within the current Offtake Metering regime. This would result in Shippers carrying less risk and therefore enable them to avoid adding unnecessary risk premia to customers' bills.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No.

Relevant Objectives:

How would implementation of these modifications impact the relevant objectives?

We consider that Modification 0335 would better facilitate the following objectives:

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

This modification would place greater investment pressure upon the Transporters to establish appropriate and accurate metering at LDZ Offtake points by imposing a cash flow impact on them. This would also incentivise transporters to effectively audit and monitor Offtake Meters, therefore improving the operation of the pipeline going forward.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph(a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

We consider that this modification would contribute towards a more stable shrinkage incentive.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs(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;*

Competition will be facilitated by 0335, as the impact of any single error is reduced. The modification also ensures that shipper charges do not contain unnecessary risk premia for offtake metering errors making them more accessible to consumers. Small Shippers will benefit from this as an addition to the management of their cashflow resulting in benefits to competition. Therefore we think that the market will become more accessible to new entrants as costs become more predictable.

In addition, this modification should help mitigate any risk of a cash call for a Shipper during peak usage periods and allow Shippers to better manage their appropriate credit arrangements.

Impacts and Costs:

What analysis, development and ongoing costs would you face if these modifications were implemented?

Possible minor administration costs.

Implementation:

What lead-time would you wish to see prior to these modifications being implemented, and why?

None, we would like to see this Modification implemented at the earliest opportunity so that shippers can benefit from an improved cashflow position and from the removal of a barrier to competition. Also, the sooner the Transporters are incentivised to invest more in LDZ Offtake Metering, the better.

Legal Text:

Are you satisfied that the legal text will deliver the intent of each modification?

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Yes.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

We believe that Mod 0335A offers a less robust solution to this problem. It reduces the risk for Transporters compared to 0335 and we consider that it does not provide a sufficiently strong incentive on the Transporters to encourage them to invest in development of LDZ Offtake Metering to the extent required to reduce the number of errors that are occurring.

Modification Proposal 0335 has been under consideration by the industry for 12 months now. The Transporters have acknowledged that there is an issue to be addressed here and that some form of incentive or monitoring regime may be needed, whilst expressing the view that this proposal did not present the best way forward. We consider that there has been ample opportunity for the Transporters to develop this proposal or come to the table with a credible alternative relating to the whole market, but they have not done so.