

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

6th January 2012

Dear Bob

RE: UNC Modification 0387 – “Removal of anonymity from Annual Quantity Appeal and Amendment Reports”.

1. British Gas supports the implementation of Modification Proposal 0387 and believes it is an important step towards securing an effective gas settlement assurance regime. This is vital for securing effective competition both now and in the future.
2. The accuracy of the Annual Quantity (AQ) value is crucial in the non-daily metered (NDM) market as it is the primary variable in the cost mechanisms, and a material determinant of the capacity charges which Shippers are invoiced for.
3. The risk arising from misuse of this process is material: £billions of cost is allocated through the AQ process each year and we calculate that were a Shipper with a 10% NDM market share to avoid just 1% of their costs through misuse of the AQ Review process, the misallocation of costs would be worth ~£6.5m¹.
4. The Network Owners, through their agent Xoserve, publish annual reports on Shippers' performance in the AQ Review. These reports, known as the “MOD81 reports”, are part of the industry assurance for ensuring that Shippers do not misuse the AQ Review process for commercial gain. They are anonymous however, which means that if any potential issue is identified with a Shipper's performance the industry is unable to take any effective action to investigate the potential issue.

¹ Assuming approximate SSP aggregate AQ of 328 TWh at an average cost of approximately £20m p/TWh, or £6.5bn total value. 10% share of this cost is therefore approximately £650m, with 1% of that cost valued at approximately £6.5m.

5. We believe that, given the significant sums of money allocated using data determined by the AQ review, an effective assurance regime is required to monitor Shipper performance. Whilst Ofgem have the right to see unanonymised data and could theoretically police this aspect of the market, we would prefer the industry to take steps to enable them to provide their own assurance. If this is to happen then the first necessary step is to ensure that information about who has done what is transparent and available so that challenges can be made, and action taken wherever necessary. This means removing the anonymity from the MOD81 reports.
6. We recognise this is part of a wider package of reform which is needed and have also raised Modification Proposals 0378 and 0379 which will also ensure that the industry has more relevant information available with which to ensure compliance with existing rules, and an audit mechanism through which any potential issues can be independently investigated. It should be noted that the legal text accompanying this Proposal is compatible with both these other Proposals, were they also to be implemented.
7. We consider that transparency will also have other benefits, and in particular we argue that it will act as a deterrent to any Shipper who may in future consider abusing the AQ review process for commercial gain. If a Shipper knows that their performance will not be hidden behind an pseudonym, and that it will be easier for their actions to be scrutinised, they will be less likely to offend in the first place. This deterrent effect has value in itself.
8. We also are aware that it is common industry knowledge of the identity of some Shippers in the report given, for example, their size. British Gas, for example, are clearly visible in the report despite the apparent anonymity, as are a number of other Shippers. We believe that the current arrangements discriminate against these Shippers for no reason, effectively affording some anonymity and others exposure. This Proposal will remedy this and ensure that the Network Owners treat all Shippers equally in this respect.
9. We are aware that some have argued that this could be resolved by the reports becoming even less transparent, achieving complete anonymity through further sub-division and more opaque. We argue this defeats the purpose of the reports and the assurance regime as a whole, which relies on information to identify where misuse may be occurring.
10. We also remain committed to wider reform agenda and consider that this Proposal forms an essential part of a wider assurance framework which is now being built by Shippers. We also support Modifications 0378, 0379 and 0379A and believe that they represent necessary first steps at the start of a wider reform of the gas assurance framework.
11. Our assessment of how these Proposals meet or do not meet the Relevant Objectives of Code are set out below.

(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.

12. This Proposal will better enable the industry to police themselves, identifying where potential misuse has occurred, and provide a deterrent against Shippers misusing the AQ Review process. This will in turn lead to both more accurate AQs and more confidence in the cost allocation in the market, which in turn will better enable more effective competition between Shippers.

f) Promotion of efficiency in the implementation and administration of the Code

13. This Proposal will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ amendment and appeal processes, thus facilitating efficiency in the implementation and administration of the Code.
14. 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