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17 May 2006

Dear Ms Njoku

Review of Reconciliation by Difference (RbD)

energywatch welcomes the opportunity to respond to the issues raised by this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem website.

The paper usefully highlights a number of issues which impact on the relative accuracy of the RbD process and which could lead to higher charges for usage being allocated to suppliers who may pass these charges on to domestic consumers. We are clearly very concerned that any costs passed through to domestic consumers should truly reflect actual usage and not be based on poor estimates or misallocations.

We recognise that the RbD process was not originally envisaged to reconcile the meter readings of all 19 million domestic consumers. However, we note with concern, that the reconciliation process is being made more difficult in a number of ways:

- the data quality associated with AQs (annual quantities) is somewhat wanting. Some action has been taken through UNC code modifications to redress potential misallocations of usage between shippers;
- the lack of transparency in the AQ review process may allow gaming to take place, influencing the allocation of usage upon which charges are based;
- the AQ review process is undertaken annually, failing to take into consideration the use of more frequent actual readings which could improve the accuracy of the usage allocation;
- the lack of pressure on IGTs, perhaps in terms of licence obligations, to provide improved AQ information which would help reduce the level of misallocation over time in respect of consumers served by IGTs; and
- the problems of determining accuracy on shrinkage factors and whether there are sufficiently robust means of addressing inconsistencies in the level of shrinkage which ultimately feeds into bills.

We agree that, where there are potential solutions to some of these issues which may help reduce inaccuracy and can be pursued through the existing modification processes under the UNC, it is appropriate for parties to use that route. We also believe, however, that Ofgem has a role in taking action to pursue a specific review in the I&C market where the potential for using more frequent and updated actual AQ values may help improve the accuracy of the settlement and reconciliation process.

We are concerned that the paper does not provide sufficient information, in quantifiable terms, about the scale of these problems. Without a cost-benefit analysis, we lack the knowledge to say that domestic consumers would benefit from a more radical approach to reconciliation which would reduce inaccurate and misallocated usage and ensure that, in the long term, some, if not all, of the current issues can be addressed effectively. We consider this to be a significant omission from the paper and we would be interested to hear Ofgem's views in this regard.

Ofgem is aware of energywatch's concerns about the detriment suffered by approximately 730,000 consumers served by IGT networks. We believe that consumers served by IGT networks face higher costs, receive poorer service and have less choice compared to consumers on the gas DNs. The majority of these consumers must pay higher prices due to the IGT surcharge levied by most suppliers. This surcharge is attributed to the higher costs of serving consumers on IGT networks, partly explained by problems with the fixed AQs of both legacy and RPC consumers on IGT networks. We would like to see use of IGT consumers' actual usage to calculate their transportation charges in order to reduce the cost to serve of these consumers. Ofgem should also consider how to progress this aspect further to improve the quality of reconciliation.

Equally, Ofgem is aware of energywatch's full support for smart metering and other innovation which will improve the accuracy of bills to all consumers and help encourage consumers to take greater responsibility for their efficient use of energy. We believe that a significant push towards smart metering, which ensures widespread use, will aid the process of reconciliation of energy both in gas and electricity and can only be beneficial in removing some of the settlement inaccuracies highlighted in the paper. We look forward to working with Ofgem to advance smart metering in an appropriate timescale to the overall benefit of consumers.

We will take a keen interest in the outcome of this consultation and continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs