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Dear Ms Njoku,

Review of Reconciliation by Difference (RbD)

Thank you for the opportunity to comment on the above consultation paper and we have set out our comments below.

We recognise the benefits of the existing RbD process in that it is a pragmatic and cost-effective means of reconciling the difference between actual and deemed measurements of gas allocated to small supply points. It is vital that we do not lose sight of the overall advantages of the existing process when considering the detailed issues raised in the paper. Indeed, a wholesale review of the RbD process would be complex, resource intensive and involve significant cost given the potential changes to IT systems, etc. For these reasons, we would not support such a review being undertaken at present. Rather, we would support Ofgem's initial view that the majority of issues identified can (where necessary) most appropriately be addressed through existing industry mechanisms such as the UNC modification process.

Notwithstanding the above, the accuracy and fairness of the RbD process is clearly fundamental to domestic suppliers' costs and competitiveness. It is apparent that market participants are subject to a significant level of risk through RbD and this is compounded by a lack of transparency in the process. In particular, the risk of systematic bias in the system, for example in relation to individual suppliers, groups of customers, tariffs, regions, etc. would seriously undermine the effectiveness of competition (either for individual suppliers or a particular group of customers). At present, the lack of transparency makes it impossible for individual market participants to accurately identify and / or assess any such bias.

We would therefore strongly urge Ofgem to require xoserve to conduct and publish an independent review of the accuracy of the RbD process at a national level. In particular, this would confirm that there was no systematic bias within the system (or else identify any such instances). We believe that such a review should be undertaken at the earliest opportunity.

For the avoidance of doubt, we would be firmly opposed to any wholesale review of, and / or change to, the RbD process until such a review has been published and all market participants have had sufficient opportunity to assess the results. Clearly, any reform of the existing RbD process (with the associated costs) must be backed by such publicly available information in order to allow a full cost / benefit analysis and a regulatory impact assessment to be undertaken.

I hope that the above comments are helpful. If you would like to discuss further, please do not hesitate to call.

Yours sincerely

Rob McDonald
Director of Regulation