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Dear Ndidi,

Total Gas & Power Ltd (TGP) response to Review of Reconciliation by Difference

1. Given the original rationale and benefits of RbD, do you consider it remains valid under the current GB Gas arrangements?

Owing to the greater unpredictability associated with Large Supply Point (LSPs) consumption, it seems appropriate that LSP sites are individually reconciled. In contrast SSPs have relatively predictable consumption patterns. The RbD principle recognises that it would be inefficient to individually reconcile all Small Supply Points (SSPs) to capture comparatively small deviations from this estimated pattern.

All Gas Customers, Small Supply Points and Large Supply Points are billed by Suppliers for individual consumption, based on meter readings. There does not seem to have been concerns over the materiality of error arising from using RbD, as opposed to individual meter readings, to apportion energy; to date no Shipper has brought forward any concerns with a view to changing the (Uniform Network Code) UNC. The conclusion therefore is that the RbD process has not hindered the development of the SSP (principally, though not exclusively Domestic) market and that the market is comfortable with the current arrangement.

2. Are the costs and benefits of the RbD process transparent to the industry, and if not what how can transparency be improved?

It is generally acknowledged that the process is not wholly transparent. Whilst the Transporters are incentivised to ensure that xoserve only incurs costs efficiently and the RbD auditor is able to ensure that the process is accurate, at present. These issues can be resolved through modifications to the UNC however (as modification 0081, recently raised by BGT attempts to do so), so there is no compelling need to radically alter xoserve's role to accommodate this.

3. Do the various RbD related industry work groups provide sufficient governance and transparency of the RbD arrangements?

The RbD methodology is set out in prescriptive detail within TPD Section E of the UNC. Any changes that are required to the basis for RbD can be progressed through the normal UNC governance process. There have not been any changes to RbD since the inception of the UNC in April 2005, so there does not seem to be any perceived deficiency in the current process.

4. Is there sufficient transparency of the data or the information xoserve provides to



the Industry?

Please see our response to question 2.

5. Is the scope of the current RbD Audit appropriate?

As stated in the consultation, the scope of the RbD does not cover the actual data used in the calculations and allocations. It does cover the risk of a material breach however and xoserve processes and this seems an appropriate level of rigour.

6. Are there sufficient incentives on all parties to limit the size of RbD?

There have been changes made to the UNC to incentivise Parties to ensure that Supply Point information sent to the Transporters is accurate and up-to-date. Modification 0640 which penalised Parties who did not revise Small Supply Points AQ whose consumption has increased above 73,200 kWh (referred to as "Threshold Crossers") is an example of such a change.

In light of this continuing scrutiny by Shippers of the RbD process it seems that the industry is satisfied with the current incentives that are present.

7. Do you consider there is sufficient transparency in the operation and accuracy of industry processes such as the AQ review and shrinkage calculations and 8. Do you consider the existing governance arrangements around these processes to be appropriate?

At present there is insufficient transparency of how xoserve fulfils the requirements of the UNC. The RbD auditor is in a position to ensure that xoserve undertake this however but overall there is a dearth of information available. Shippers are able to raise modifications to address any deficiencies however as British Gas Trading has recently done so with Modification 0081 and so the governance process seems adequate to respond to such issues.

9. Do you consider there are there appropriate incentives in place on relevant parties to ensure the timeliness and accuracy of these processes?

As stated in the response to question 6, there has been a tendency by the industry to put appropriate measures in place, if it is felt that Shippers or Transporters are not observing due diligence in submitting data for settlement. The current framework seems appropriate.

10. Do you consider that the timing and scope of the AQ Review is appropriate?

At present the Transporters are able to undertake the review at any point prior to 31 May, and this is normally initiated at the end of March. This can leave insufficient time for some end of winter period meter readings to be taken into account for the AQ review. This can be resolved through the UNC modification process however.

11. & 12 What would the likely costs and benefits be of introducing Meter Point Reconciliation to all supply points.& What conditions would need to be satisfied in order for individual Meter Point reconciliation to be practicable, and to what timescale?

There would be a marginal benefit in allowing individual SSPs to be reconciled on a rolling basis, primarily from improved forecasting of demand.

The costs in achieving this would be substantial however. At present it takes xoserve several weeks to recalculate AQs as part of the AQ review process. In order to do this on a rolling basis xoserve would be required to exponentially expand its operations including a complete rebuild of the current system



infrastructure to cope. Shippers would also be required to radically overhaul their systems that interface with xoserve. The timescale to achieve all this would be considerable and in the order of several years.

It therefore does not seem practicable to allow Meter Point Reconciliation for all Supply Points at this time.

13. Would it be feasible for shippers to choose whether their supply point should be individually reconciled or processed through RbD?

It does not seem feasible that such a framework could be supported as it would have to take into account Small Supply Points which move from a shipper who has opted out of RbD to one that still utilises the RbD process. The costs in accommodating such movements would outweigh any marginal benefits accorded to the shipper or its customers.

Summary to consultation response

In brief we do not feel that there are any major issues with the RbD process and do not believe that any major review is required. Any minor issues can be raised by Shippers individually, as has been done so in the past.

The RbD consultation document refers to “industry concerns” over the RbD process. As we have highlighted above, any perceived deficiencies in the settlements process can be addressed through the current governance structure. Whilst we appreciate Ofgem highlighting these concerns to the wider industry, it seems unnecessary to have a preliminary review of RbD prior to any consultations which must be conducted under the aegis of the UNC modification process.

Should you wish to discuss our response further, please feel free to contact me.

Yours sincerely,

(This message is sent electronically and is therefore not signed)

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