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Dear James

RIIO-Gas Distribution 1: Initial Proposals

ScottishPower is pleased to respond to the Ofgem's consultation on initial proposals for the RIIO-GD1 Price Control. Our response is not confidential and accordingly we are happy for it to be published on the Ofgem website.

We broadly support the proposals for the development of the Price Control. However, there are two areas that we believe would benefit from further consideration:

- **Incentives to reduce offtake meter errors:** We have serious concerns about the lack of performance assurance, controls, measures and governance within the gas market - which results in Shippers incurring inaccurate gas and associated transportation and settlement costs. This contrasts with the electricity market controls and assurance regime which although not perfect provides a significant degree of surety and visibility compared with gas. Although we welcome the proposed secondary reporting measure in respect of gas offtake meter errors, we do not believe this goes far enough. We believe that:
 - a) a more targeted incentive scheme should be introduced such that in certain circumstances GDNs would incur a liability against Allowed Revenue;
 - b) with regard to meter inspection, a 6 monthly independent audit process should be introduced to verify that all required obligations and procedures are being carried out on the meter installation;
 - c) new processes should be put in place to reduce the length of time required to resolve metering error issues and the consequent uncertainty for the Shipper community;
 - d) GDNs should provide more detailed information on how their proposals to modify or update existing offtake metering assets will improve accuracy; and

the success of these initiatives should be monitored and reported upon to ensure that forecast accuracy improvements are achieved;

- e) adopting an industry standard figure of 0.1% for total errors (as a percentage of throughput) will not provide sufficient incentive for GDNs to improve their performance and that a value of 0.05% is a more ambitious target;
 - f) the total offtake metering error should be calculated as a rolling three year view; this metric should not be used in isolation but should be complemented by a number of other metrics.
- **Application of revised Allowed Revenue values to Gas Transportation charges effective from 1 April 2013:** major step changes in Transportation charges have the potential to cause difficulties for system users, but we recognise that Ofgem is consulting separately on volatility and the associated issues.

More information on the above concerns is provided in the attached Appendix. We would welcome the opportunity to set out our concerns in more detail either by telephone or through a meeting. However if you require any further information at this stage, please do not hesitate to contact me on the telephone number above.

Yours sincerely

Marie Clark
Energy Commercial Manager
ScottishPower

RIIO-GD1: INITIAL PROPOSALS – SCOTTISHPOWER RESPONSE

Offtake measurement errors

Ofgem is proposing to introduce a number of secondary deliverables relating to network reliability. One of these measures relates to monitoring GDNs' performance in relation to instances of LDZ Offtake Measurement errors. Ofgem has proposed that a common industry standard is introduced such that total offtake metering errors as a proportion of GDNs' annual throughput does not exceed 0.1%.

It is evident from the number of offtake meter errors reported to the industry that GDNs have limited commercial incentive to minimise the number and duration of such errors. While a reporting mechanism is helpful, we believe a more targeted incentive scheme should be introduced such that in certain circumstances GDNs would incur a liability against Allowed Revenue. Such circumstances might include instances where meter error has occurred as a result of human error in relation to performance of periodic meter maintenance procedures, or as a result of lack of adherence to technical requirements and procedures for meter inspection.

With regard to the meter inspection process, we would suggest that a 6 monthly independent audit process is introduced to verify that all required obligations and procedures are being carried out on the meter installation in accordance with best practice guidelines.

Following the Farningham meter error which spanned a period of almost 6 years (13 July 1999 to 30 June 2005) and resulted 2.4TWh (£26.4m) of energy being unrecorded at the South East LDZ, several industry initiatives were introduced to increase the visibility of meter errors and to introduce additional reporting and investigating procedures within the Offtake Arrangements process. However it appears that these developments do nothing to reduce the prevalence of errors and do not go far enough to ensure accurate and speedy resolution.

For example over the last 2 years there have been a number of high profile offtake metering errors, such as Aberdeen and Braishfield. From statistics presented in the consultation document, some GDNs perform better than others in relation to the number of instances, the period over which error has occurred, and the material value of the meter error.

The majority of offtake meter errors result in an under-recording of gas which has entered the network. Errors can go un-noticed for a considerable period of time. It has been estimated that the Aberdeen meter error could have occurred for as long as 386 days before it was eventually identified by SGN and it took a further 44 days before it was reported to the industry. Despite considerable time elapsing since the error was discovered, even at this stage, SGN are continuing to engage with technical experts in an effort to determine the value of the energy not recorded, with Shippers awaiting the

eventual outcome to understand the extent of liability. The period of engagement and consultation with the Industry has lasted 11 months and is still ongoing.

The Aberdeen meter error has again demonstrated the lack of appropriate audit controls on site to ensure that the meter equipment inspection regime attains the highest standards of performance. While we appreciate that it is important to calculate an accurate value for the error that has occurred, we believe that it is more important that controls, such as a proposed 6 monthly audit, are put in place to identify errors in a timely manner and that Uniform Network Code processes are in place to reduce prolonged uncertainty for the Shipper community. We suggest that the Aberdeen error may be a useful case study for the UNC Offtake Committee to consider how to improve existing processes.

We believe that only a requirement to address equipment suitability/failings and incentives across all GDNs to actively detect and address metering errors would have the effect of ensuring consistent performance and accurate measurement.

While it can be argued that the energy that has been under-recorded has been used by Shippers' customers, errors cause cost uncertainty in the market and as such are detrimental to competition by deterring market entry and presenting significant business planning and purchasing challenges for the existing large and small Shippers. From the time that a meter error is identified, various technical experts are employed to ascertain the extent and value of the error, to the error being adjusted through settlement, a considerable period of time can elapse (as is demonstrated above in relation to the Aberdeen error).

From discussions held with GDNs through the RIIO stakeholder engagement process, it is evident that some GDNs have within their business plans proposals to invest in and prioritise the replacement of existing orifice plate offtake meters with more reliable ultrasonic meters. In addition these GDNs appear to be committed to procedure modifications to ensure that meter equipment is maintained to the highest standard, to reduce the likelihood of errors occurring in the future. While we welcome the installation of ultrasonic meters, we would like to see more detailed information in relation to GDNs' proposals to modify, update and replace existing offtake metering assets and how these initiatives will improve accuracy. We would also expect the success and quality of these initiatives to be monitored and reported on, to ensure they provide the value and improved accuracy as forecast.

Given that many highly significant measurement errors (both live and resolved) are caused as a result of human error we would suggest that any procedure modifications should include development and improvement of maintenance and validation techniques employed by GDN engineers to ensure that errors introduced at annual validation checks are minimised and, where they do still occur, that they can be more quickly identified. Furthermore, we would hope that any modifications and upgrades are performed to a sufficient standard so as not to introduce the types of inaccuracies they are designed to avoid. In addition, we would hope that a culture of sharing of best practice between GDNs with respect to Offtake measurement is planned or encouraged by Ofgem.

We support Ofgem's intention to place a secondary reporting measure on GDNs to limit the value of offtake meter errors. However, we believe that the industry standard figure of 0.1% does not adequately incentivise GDNs to improve performance, indeed we are quite disappointed about the lack of ambition by the GDNs to actively address the issue of metering errors. From Table 7.4 of the document "RIIO-GD1: Supporting document – Outputs, Incentives and innovation", 6 of the 8 GDN's LDZs are already exceeding the performance level, with 2 achieving 0% error. We would therefore propose that at this

stage the value should be set at 0.05%, which represents an average of current performance when the SC LDZ is excluded. However we would like to highlight that it is not clear from the document what measures Ofgem will take should a GDN fail this proposed standard? As outlined above it is ScottishPower's assertion that there should be a liability against Allowed Revenue if the target which is decided by Ofgem is not met.

From an operational view point it is not clear from the information published at which stage an error will be recorded or how offtake measurement errors are to be allocated to a specific reporting year. For example, will recording be made against the year that the error occurred, or the year when it was first notified to the Industry, or the year in which the error quantity was finalised and invoiced? In addition, should it be identified that an error extends over a number of years, will the energy associated with the error be recorded and assigned to a single reporting period or apportioned over several reporting periods?

Table 1 below provides information on the number of offtake meter errors that have been identified and the offtake meter type installed, covering the period 2007 to 2012, and Table 2 shows the energy value associated with these errors. This information has been compiled from data presented within the UNC Offtake Arrangements.

Table 1

No of Measurement Errors by Meter Type	Year Error Started						Total
	2007	2008	2009	2010	2011	2012	
Orifice	29	13	11	15	9	1	78
Turbine	3	6	6	8	3	2	28
Ultrasonic	1	0	0	1	0	0	2
Total	33	19	17	24	12	3	108

Table 2

Sum of Estimated Error Quantity (GWh)	Year Error Started						Total
	2007	2008	2009	2010	2011	2012	
Orifice	477.8	573.3	3220.9	1174.5	-4.6	0.0	5441.8
Turbine	53.5	4.9	31.4	-26.5	4.1	1.4	68.9
Ultrasonic	-0.3	0	0	5.5	0	0	5.2
Total	531.1	578.2	3252.3	1153.4	-0.4	1.4	5515.9

While we agree that the total error quantity as a percentage of throughput is a useful measure, we do not feel this should be used in isolation. For example the information above demonstrates that there are particular issues with orifice plate meters and their share of metering error. At the same time other evidence shows that this issue does not exist across all GDNs – as Shippers we are left presuming that this might be down to training or procedural issues, but have no visibility of this. We therefore believe there are a number of other metrics which could be used to provide greater assurance to the industry that GDNs are performing satisfactorily:

- Number of Offtake Measurement Errors across a period.
- Number of Measurement Errors at the same Offtake across a period.
- Consideration of the materiality of individual/total errors across a period (an LDZ with sufficiently large throughput could have material error which is less than 0.1%)

- Consideration of the root cause of the error (e.g. poor maintenance, human error).
- Time taken to identify error.
- Time taken to notify affected parties of error. (These errors can have a significant cashflow impact on Shippers)

As an alternative proposal, when considering the data provided in the consultation documents (Table 7.4 RIIO-GD1: Supporting document – Output, Incentives and Innovation) we would suggest that a rolling three year view of error quantity versus throughput would be a more suitable metric, allowing consistently poorly performing GDNs to be highlighted.

As mentioned previously, in addition to the above reporting, ScottishPower believe that appropriate financial incentives should be placed on GDNs to ensure the necessary investment in technology and resources to reduce the occurrence of offtake meter error. Within the electricity market, a series of early warning indicators are employed to identify variances from expected GSP outputs. This has resulted in any variances being identified and rectified at an early stage, which in turn limits the impact of settlement inaccuracies. Equally there is robust allocation and reporting across the settlement spectrum that allows Suppliers to identify errors. It is of great concern to us that the current settlement and allocation process and lack of performance assurance framework does not afford the same level of surety for the gas market.

Gas Transportation Charging

GDNs are required under Licence to notify Shippers of their intention to make changes to their transportation charges at least 150 days prior to the proposed implementation date. The UNC requires Transporters to provide 2 months notice to Shippers of final charges to apply from 1st April. Ofgem has advised within the consultation document that final proposals for RIIO-GD1 will be published in December 2012.

Should GDNs determine that changes are required to their charges effective from 1 April 2013 they will require to provide notice to Shippers of indicative charges at the beginning of November 2012. GDNs will base any changes that are required to their charges on initial Allowed Revenue figures assumed to be effective from 1 April 2013. Depending on the level of variance between initial Allowed Revenue figures and those published within the RIIO-GDN1 Final Proposals in December 2012, this may result in GDNs applying adjustments to their Final Charging Statement which are required to be published by 1 February 2013 for 1 April 2013 implementation.

We are concerned about the potential for major step changes in transportation charges and the uncertainty that this situation presents for Shippers and their customers. GDNs are required under the UNC to report their cost recovery against Allowed Revenue via the UNC Modification 186 reports. As Ofgem appreciates, as the crossover approaches between the end of one Price Control period and the start of another, a degree of uncertainty exists as to whether the value of Allowed Revenue from one period to another will result in GDNs applying large scale adjustments to their transportation charges.

We therefore await the outcome of the recent consultation on charging volatility.

ScottishPower
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