

IA - Identification and Apportionment of Costs of Unidentified Gas

Chapter 3

Question 1: Do you agree with Ofgem's assessment that the likely impact of the Modification Proposals on charges made to consumers?

While ScottishPower accept the general point raised within the IA that the result of any re-allocation of unallocated gas to the LSP market will ultimately result in increased costs to customers in that market we do not think this is an unacceptable position. We believe that this counteracts with Ofgem's previous strong view that no one party should be inequitable. We do not agree that it is acceptable for domestic consumers to pick up a 1% cost per annum (£9.33 per customer), whilst not taking into account the risk, profitability impacts on Shipper/Suppliers or the ability of consumers to pay. As previously mentioned we believe that such an imposition results in around 40,000 domestic customers falling into fuel poverty on an annual basis.

Also with the increased costs being faced by domestic customers as a result of other government activities such as Smart Metering and green measures it seems even more important to ensure domestic customers are not picking up any costs that are not applicable to that market sector.

Question 2: Do you consider that the proposed governance arrangements under UNC0229 offer adequate protection to the interests of consumers in their present form?

ScottishPower have serious concerns over the proposed governance arrangements being proposed under UNC0229 and have concerns that if not managed properly that these will have potential for serious detriment for smaller customers over a long term, particularly those who are already more vulnerable. The constitution of the UNCC is skewed toward the LSP only Shippers, with there being 3 members, to 2 members for the mainly SSP Shippers. It would therefore appear that it would be impossible for the 'domestic' Shipper to successfully object to a proposal. In addition the same make-up and individuals constitute the MOD Panel. Therefore if a 'domestic' Shipper did not agree with either the scope of the AUGER, the methodology proposed or a change suggested and approved by the UNCC, then the only redress would be to raise a modification. This in effect would go to the MOD Panel (who are the same people) for them to consider recommending implementation or not.

The result of this arrangement would be to remove the Shipper's statutory right of appeal to the Competition Commission, since if Ofgem agree with the MOD Panel, then there are no grounds for appeal. This is a totally unacceptable position. Ofgem have recognised proposals under the current Governance Review to increase consumer representation on UNC Panels, however, this fails to take into account the current constitution of the UNCC and the potential impact on SSP Shippers and therefore customers.

We note the concerns Ofgem raise with regards to the proposed governance arrangements under Modifications 0228/0228A and the fact that further modifications would be required in order to update tables or percentages for use in allocation. However, like the alternative approach being suggested under 0229, we do not

believe there are any reasons why a specific process with rules and guidance could not be put in place to update the tables on an annual basis outside of the normal modification process.

Question 3: Do you anticipate any further impact upon consumers in addition to those considered in this chapter?

The key issues for customers will be the increased cost they will face to support the development and appointment of the proposed arrangements under 0229. Ofgem recognise that the implementation of 0229 will be likely to be higher upon the industry since the appointment and resourcing of an independent expert will require a more complex process than the alternatives 0228 and 0228A. It is also recognised that this additional cost will be borne by customers. ScottishPower do not believe that it is acceptable to allow the domestic market to pick up further costs for the development of an AUGE as well as continuing to pay for unallocation of gas while the AUGE is developed, given they have been cross subsidising the LSP market for over a decade.

Chapter 4

Question 1: Do you agree with our assessment that any of these Modification Proposals will have an effect upon incentives for shippers to reduce the quantity of Unidentified Gas offtake at LDZs?

The Modifications were designed to reallocate the inequality that exists where Domestic Shippers are exposed to all the risk associated with unallocated gas e.g. Shipperless sites. The introduction of a modification that provides transparency in this area will serve to incentivise the industry to improve or introduce processes, which will enable more accurate allocation of energy to the appropriate market sector. Initiatives are already underway in this regard, for example, the Theft of Gas work being developed through UNC Modifications 0274 and 0277.

However, we also recognise that the implementation of 0229 will actually result in little incentive for LSPs, especially in the short to medium term, since they cause part of the problem with no financial responsibility.

Question 2: Do you agree with our assessment of the likely distribution impact of the Modification Proposals?

We recognise that the cost per capita will potentially be higher for I&C customers, but this will only be where it is established that a significant proportion of unidentified gas has been used by this market. At present there is an incentive on LSP Shippers to actively identify and detect causes of unidentified gas, since any detection will flow through to SSP shippers. Although the active detection and identification of unidentified gas is to be welcomed under the existing mechanism it serves as a perverse incentive with all the risk being borne by the SSP market. Therefore, the introduction of any of the Modifications, with 0228/0228A having an almost immediate benefit, should be further incentive to improve existing and/or develop new processes to ensure that costs are picked up by Suppliers for all customers.

Question 3: Do you believe that the potential benefits of the Modification Proposals justify the additional costs imposed on customers?

At present the SSP market pick up all of the cost and therefore all of the risk for unallocated gas so any move to ensure that Suppliers should only be allocated

energy, which has been used by their customers is a step forward. However, as stated above we do not believe that it is acceptable to allow the domestic market to pick up further costs for the development of an AUGE as well as continuing to pay for unallocation of gas while the AUGE is developed, given they have been cross subsidising the LSP market for over a decade. So until processes are put in place to rectify the current anomalies, all participants should pick up a proportion of the risk. The way to achieve this is to approve either 0228 or 0228A.

Question 4: Do you agree that applying a variable RbD charge upon LSP shippers would potentially entail a negative impact upon competition? Do you feel that this potential impact justifies the imposition of a fixed rather than variable charge on LSP shippers?

We do not believe that applying a variable RbD charge upon LSP Shippers would potentially entail a negative impact upon competition. We are aware that many, if not all, I&C contracts are more flexible than domestic contracts and normally include a 'pass through' clause for elements of transportation. Ofgem has stated that it is inequitable for the SSP market to bear the burden for all unallocated gas and given this area has been discussed for a number of years LSP shippers should have been taking steps to be able to pass on any extra costs that might arise by revising their contractual documentation. The issues within Gas allocation apply equally to I&C and Domestic Suppliers and yet they are currently only borne by Domestic Suppliers, which is inappropriate. If anything we think that as it stands the RbD mechanism does not promote competition or stimulate new entrants to the domestic supply market, in particular since there is no transparency or auditability of cost and the continued risk of retrospective adjustments. In addition to this cost, new entrants to the domestic market would also have to consider and factor in a range of other costs, for example, government schemes. We believe that it is inappropriate to persist in the discrimination of this one market sector, in order to continue the stability of another. This would remain a key concern, should Ofgem approve Modification 0229 in isolation.

Question 5: Should any third party authority created under the terms of UNC229 be tasked to review incentives for investigating theft upon individual shippers?

We fully agree that further work is required at an industry level to address any perceived process failures that exist within key areas that give rise to unallocated gas, such as theft, with a view to introduce further incentives. However, as mentioned earlier there is currently work underway to review the incentives for investigating theft and we believe this work should be completed. Therefore, we would not anticipate the third party authority initially being tasked to review incentives for theft investigation upon individual shippers.

Chapter 5

Question 1: Do you agree with Ofgem's assessment that any impact on sustainable development as a result of these Modification Proposals is likely to be marginal?

Although the cost of the current unidentified gas might appear small, at a 1% addition cost to a domestic consumer's bill, it should not be under-estimated what this cost means for fuel poor customers and in effect SSP customers have been cross subsidising the rest of the market to their detriment.

However, we do agree that better targeting of costs at the appropriate market sector that caused the error will encourage a reduction in the overall volume of error, but is likely to have a limited impact on domestic customers reducing their consumptions levels. We believe that the introduction of 0228/A could have an impact on LSP consumption levels, as it would provide a greater incentive to review and reduce unidentified gas.

Question 2: Do you agree with Ofgem’s assessment of the relative impact on sustainable development of each of the Modification Proposals?

ScottishPower agrees with Ofgem’s assessment in this area.

Question 3: Do you consider that there are any further impacts in sustainable development that are likely to result from the Modification Proposals?

No.

Chapter 6

Question 1: Do you anticipate any impact on health and safety as a result of these Modification Proposals? If so, what?

We agree with the conclusions drawn by Ofgem that more proactive investigation of Theft should have a positive impact on Health & Safety, reducing potentially hazardous conditions around supply of gas, such as bypassed meters and theft direct from the network.

Chapter 7

Question 1: Do you agree that implementation of UNC229 would leave parties with adequate recourse to query decisions made by the AUGE?

ScottishPower believes one of the main drawbacks of 0229 surrounds the proposed governance regime. The current constituency of the UNCC is skewed toward the LSP only Shippers, with there being 3 members, to 2 members for the mainly SSP Shippers. It would therefore appear that it would be impossible for the ‘domestic’ Shipper to successfully object to a proposal.

Furthermore, if the UNCC decides on the proposed methodology from the AUGE and the route of challenge for this is through a modification, then the modification will go to the MOD Panel for a decision to recommend implementation (in effect the same people). This process will therefore stifle, or even remove the statutory right provided for through the Energy Act 2004 to appeal to the Competition Commission.

Question 2: If not, how should any additional governance be implemented?

ScottishPower firmly believes that amendments to the current governance regime would be required in order to ensure no market sector had an advantage over another. We would therefore consider it a necessity to either amend the existing governance arrangements, or create some new governance arrangements solely to deal with the AUGE and the decisions they make. It may also be worth considering other existing governance arrangements such as SPAA, although we recognise this would also require some development to include the appropriate parties.

Question 3: Are there any additional risks, which may be placed upon industry parties by implementation of the Modification Proposals within the scope of this Impact Assessment, which we have not identified in this document?

As acknowledged within the IA, the Modifications being considered do not actually address the root causes of unallocated gas and we accept that further work will be required to facilitate this. For example, we believe that further improvements can be made to the settlements regime which will increase the accuracy of the energy settlements and give clearer visibility to the issues that are contribution to the RbD error. It is our view that the extension of individual meter point reconciliation would introduce retrospective settlement of energy costs to the SSP market sector and as such would further reduce any cross subsidy of costs. Additionally, Shippers would have increased assurance in settlement costs applied against their individual portfolio of customers. Increased performance measures in relation to meter reading submission would ensure that settlement standards are maintained with appropriate auditing to address any performance failures or deficiencies. We believe the introduction of individual meter point reconciliation could continue to be supported by the framework and methodology proposed under Modifications 0228 and 0228A. Overall we believe that there would be increased visibility and transparency on the true value of RbD error, supported by detailed assumptions on the impact that individual issues make to the error.

Question 4: How could the Governance Arrangements for appointment of an AUGE be structured to minimise impact upon shipper parties? Should GTs be indemnified from any risks from holding this contract, and if so how might this be implemented in practice?

We believe that the best approach would be the immediate implementation of either Modifications 0228 or 0228A, with a further Working/Development Group being convened, with equal representation from both the SSP and LSP market players, to look at the proper scope, remit and governance of the proposed AUGE solution.

Chapter 8

Question 1: Do you agree with Ofgem's assessment that the benefits of appointing an independent third party to assess Unidentified Gas would accrue to the industry?

We agree that the fundamental principle of appointing an independent expert should in the longer-term result in a benefit to the industry, if the scope of any AUGE is to identify all unidentified gas, since any unidentified gas should be allocated to the appropriate market sector. However, given the timescales that will be required to develop and implement an AUGE (on the assumption that there is a suitable party to conduct this role) we do not believe that it is a sustainable proposition that the SSP market, being mainly domestic customers, should be picking up the cost of unidentified gas until and we believe Modifications 0228/A address these issues and could be implemented almost immediately.

Chapter 9

Question 1: Do you believe that a post-implementation review will be necessary for the Modification Proposals, which Ofgem is minded to implement?

ScottishPower would fully support a post implementation review to ensure that the intentions of the Modifications were met and that the application has been successful.