

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0642
"Withholding of Energy Charge where LDZ Reconciliation has been disputed"
Version 1.0

Date: 14 August 2003
Proposed Implementation Date: As soon as possible, no later than 8th September 2003
Urgency: Urgent

Justification

Currently Shippers are not permitted to withhold payment of the energy element of any Energy Balancing or Reconciliation charge or invoice. (Section X (EBCM Supplement) states that Energy Balancing Invoices must be paid in full (Su3.1)). This also applies to the Energy element of reconciliation charges (Gas Reconciliation Energy or GRE). Failure to do so will result in a "cash call" and instigate the escalation process in order to protect the exposure to the wider community, which would otherwise bear the burden of this cost if payment were to be withheld.

Transco are able to apply a reconciliation of LDZ consumption (section E 7.6). These charges are passed back to Users in proportion to their holding of Smaller Supply Points under the Reconciliation by Difference (RbD) process. Users of Larger Supply Points are excluded from this process as reconciliation of consumption is performed to a meter reading. This charge is processed via the Reconciliation invoice and includes both energy (GRE) and transportation (TRE) charges. The purpose of these LDZ reconciliations is to reallocate "Unaccounted for Gas" (Section N 1.4.1) which has previously been accounted for elsewhere on the network by Transco, i. e. as Shrinkage (Section N). In the situation where Transco are correcting this misallocation, this is not an energy balancing charge.

For this reason, we propose that the charges relating to such misallocation should be excluded from the Reconciliation invoice and the rules regarding inability to withhold payment where a valid dispute is raised. This would afford Users the opportunity to raise a valid query and withhold payment relating to the disputed amount whilst the query is being resolved. Thus avoiding the cash call and termination notice process. This Modification Proposal seeks to move a reconciliation process of this nature to an ad hoc invoice issued in parallel with the Reconciliation invoice but subject to standard rules for transportation charges. This would ensure that such misallocation is processed and applied correctly without placing any additional financial risk to any individual User or the community as a whole.

Justification for Urgent Status

Transco have indicated to Users that an LDZ Reconciliation, correcting an error of application of Gas Density, is to be invoiced in the August Reconciliation Invoice. This will involve a very significant sum being charged to all RbD Shippers. These sums will be due for payment on 8th September. The application of this charge has been disputed but Transco have confirmed that the rule in Section X, EBCM Supplement 3.1 will be applied. Therefore Users will be unable to withhold any disputed sum while the query is resolved.

Nature of Proposal

In the event of a correction of a misallocation of energy caused by an LDZ reconciliation, Users be allowed to withhold the Energy element of such charge where a valid dispute has been raised and not resolved. In these circumstances only, this proposal would dis-apply the Network Code requirement (Section 3.1 of Network Code Supplement) for a User to be required to pay the energy element of the charge in full even when a valid dispute is raised.

It is intended that this Modification Proposal is implemented for a fixed term of six months only which would alleviate the current concern regarding a significant charge becoming payable by all Users subject to RbD which we believe is erroneous. It would also provide sufficient time for the full impacts of this proposal to be developed into a permanent change to Network Code. It is our intent to raise a Modification Proposal to develop this permanent amendment.

Purpose of Proposal

To ensure that Users have the opportunity to dispute erroneous charges in an appropriate manner and withhold payment of such charge where there is no corresponding risk or exposure to other parties as a result of the sum being withheld from Transco.

Consequence of not making this change

Users will continue to be required to pay the energy element of a reconciliation charge where they believe that there is sufficient evidence to dispute the charge, even where there is no risk to the wider community by withholding payment.

Area of Network Code Concerned

Section E7.6	LDZ Reconciliation
Section S 4	Invoice Queries
NC Supplement 3.1	Payment of Energy Balancing Invoices
Transition Document	owing to the transient nature of this proposal

Proposer's Representative

Mike Young (British Gas Trading)

Proposer

Mike Young (British Gas Trading)

Signature

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