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Transco, Shippers and other
interested parties

Your Ref:
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Dear Colleague,

Modification 0640 'End of Year Reconciliation of Specific Categories of Smaller Supply Points'

Ofgem has carefully considered the issues raised in modification proposal 0640 and has decided to direct Transco to implement the modification. This letter sets out, amongst other things, the reasons for this decision.

Background

NGT is obliged by its network code to undertake an AQ review (annual review of the amount of gas consumed at each meter point on NGT's pipe-line system). The first stage of the AQ process requires NGT to calculate and disseminate provisional AQ values to shippers. As a result of NGT's calculation a number of Smaller Supply Point (SSPs) cross the 73,200 kWh threshold and are classed by NGT's systems as Larger Supply Points (LSP), and as such are subject to individual reconciliation.

During AQ reviews NGT has consistently identified threshold crossers, some of these sites oscillate around the 73,200 kWh threshold year by year, however, a number of sites having increased consumption will remain a LSP. A number of shippers have raised concerns about the treatment of threshold crossers and how energy associated with threshold crossers should be allocated.

Modification Proposal

NGT raised the above network code modification to enable it to undertake an end of year reconciliation for the following category of SSP threshold crossers.

- Where a SSP becomes a LSP at an AQ review, and the AQ increases by more than 15,000 kWh or 20%.

Following discussions in its Supply Point Billing Workstream NGT descoped the modification to exclude:

- Supply Points meeting the above criteria which transfer to another shipper/supplier during the year;

- Normal fluctuations in AQs within the SSP category;
- Normal fluctuations in AQs where a SSP becomes a LSP but the AQ increases by less than 15,000 kWh or less than 20% - NGT's analysis suggested that the majority of threshold crosser energy is captured by the 15,000 kWh > 20% threshold crosser supply points.

NGT's Opinion

NGT has developed this modification in a number of its workstreams; The Supply Point & Billing Workstream, RbD sub-group and its Billings Operations Forum.

NGT believes that a mechanism should exist within the AQ process to ensure appropriateness of transportation billing. NGT suggests that its methodology encourages shippers to:

- monitor and if necessary promptly appeal sites identified as threshold crossers AQs;
- ensure that relevant transportation charges are incurred by shippers appropriate to the actual offtake of a supply point, and that any inappropriate allocation of charges is rectified at the end of the gas year.

Views of Respondents

Transco received five representations to its consultation. Four respondents support the proposal and one respondent supports the principle of the modification. Supporting respondents raised the following concern this is set out and discussed below.

Allocation of Energy

A number of respondents suggest that the modification addresses concerns about reconciliation of energy at supply points which become LSPs via the AQ process.

Whilst measures have been taken via modification 0624 to govern shipper amendment activity a number of RbD shippers have consistently raised concerns about the reconciliation of energy consumed by supply points which become LSPs. The majority of RbD shippers support this modification because it seeks to allocate threshold crosser energy/transportation to the correct shipper, appropriate to the actual offtake and the appropriate market sector.

Materiality

One respondent although supportive of the principle of this modification questions whether the benefits associated with implementing this modification in its revised form are material.

NGT's AQ sub-group has consistently discussed the impacts of threshold crossers and the allocation of energy when a SSP becomes a LSP. Whilst, the AQ process results in supply points that oscillate across the threshold in successive years the energy risks for shippers are associated with changes in supply point AQs beyond the perimeters set by the modification. The amount of energy involved is not immaterial and NGT's RbD verification analysis suggests that the largest reconciliation items calculated are upward threshold crossers following each AQ review.

Ofgem's Views

Whilst modification 0624 put in place more robust Network Code rules to govern the AQ process i.e oblige shippers to take a balanced approach to amendment submission. One of the main concerns for shippers is the treatment of energy arising from threshold crossers. That is, whether the RbD community is paying inappropriately for threshold crosser energy.

In the absence of fundamental changes to SSP settlement, modification 0640 seeks to minimise risks associated with the AQ process. The reconciliation methodology proposed by modification 0640 improves current network code arrangements. Modification 0640 achieves the following changes which Ofgem supports:

- identifies a category of SSPs that cross the threshold (excluding sites that oscillate on a year by year basis) this sub-set of threshold crossers account for the majority of threshold crosser energy.
- puts in place a mechanism to rectify potentially adverse effects associated with the AQ review which impact RbD shippers. The modification would enable NGT to bill aggregate transportation and energy corrected positions to shippers and then applied through RbD to adjust each shippers annual AQs, therefore, reducing the misallocation of charges through RbD;
- introduces incentives on shippers to monitor and pursue threshold crosser appeals – the ability to appeal is available throughout the year.

Ofgem's Decision

It is appropriate for Transco to propose modifications that remove the potential for misallocation of transportation and energy amongst RbD shippers. Ofgem believes that the measures proposed by this modification furthers Transco's relevant objective of securing effective competition between relevant shippers and between relevant suppliers. Implementation of this modification addresses one of the remaining concerns in relation to energy consumed at supply points that cross the threshold.

If you wish to discuss any aspect of this decision please do not hesitate to contact Roger Morgan on 020 7901 7346 or via email at roger.morgan@ofgem.gov.uk

Yours sincerely

Iain Osborne
Director, Consumer Markets

Signed on behalf of the Authority and authorised for that purpose by the Authority