

CODE MODIFICATION PROPOSAL No 0136

**“Reconciliation following AQ Amendment where an SSP becomes an LSP prior to
calculation of Provisional Annual Quantity”**

Version 2.0

Date: 18 April 2007

Proposed Implementation Date: 2007 for application to the 2006/7 Gas Year End of
Year Reconciliation

Urgency: Non Urgent

**Proposer’s preferred route through modification procedures and if applicable,
justification for Urgency**

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

Urgent procedures are not sought for this Proposal.

It is proposed that this modification proposal be referred to the Distribution Workstream for discussion prior to being issued for consultation.

On 17th April 2007 the proposer made minor variations to this proposal. These changes were to include within Appendix 1 up to date information relating to the quantity of energy affected by this proposal, and a further change within the body of the proposal making reference to the inclusion of that data at Appendix 1. The original proposal also anticipated that development should be completed by the Distribution Workstream within 1 month. Following discussions at the March Workstream, we now consider that development, and the Workstream report, should be completed at the April Workstream for consideration by the May Modification Panel.

Nature and Purpose of Proposal (including consequence of non implementation)

Modification Proposal 640 was implemented in June 2004 and introduced arrangements to reconcile the energy and transportation commodity charges, where the revision of the Annual Quantity (AQ) had caused a Supply Point to be re-classified as a Larger Supply Point (LSP). Modification Proposal 640 contained three specific exclusions in order to simplify the amendment. These exclusions were considered, at the time, to be of little significance and of low materiality.

However, from figures made available by xoserve at the Billing Operations Forum, it was made apparent that this was no longer the case.

In July 2006, Modification Proposals 094, 095 and 096 were raised seeking to remove each of the three exclusions which were at the time detailed within Section E 7.4.3 (a) (b) & (c) of the Transportation Principal Document.

The Authority subsequently approved Modification Proposals 094 & 095 on 30 October 2006, however Modification Proposal 096 was rejected.

Within the Authority’s decision letter for Modification Proposal 096, dated 30th October 2006, the Authority made reference that *‘the exclusion contained within UNC section E7.4.3*

c) and the ability to avoid the revision charge provides an incentive on shippers to proactively monitor and pursue threshold crosser appeals.’ Further the decision letter stated ‘in addition to correctly allocating costs to the individual LSP rather than the RbD sector at an earlier stage, we also consider that this should provide administrative efficiencies, encouraging appeals to be made throughout the year, rather than concentrated in the post-Provisional AQ window.’

Whilst the proposer acknowledges that it can be argued that the remaining exclusion provides an incentive for parties to proactively monitor and pursue threshold crosser appeals, this same exclusion also provides a perverse incentive on Shippers to ensure that appeals are concluded prior to, and as close as possible to, the post-Provisional AQ window as all Supply Points which have had successful appeals will be excluded from the subsequent End of Year Reconciliation calculations and will not be subject to the resulting Annual Quantity Revision Difference Transportation Charges.

Approximately 80% of annual gas assumption takes place during the winter months within a window which begins at the commencement of the new Supply Point AQ (1st October) and the date when Provisional Annual Quantity calculations are undertaken by the Transporters (normally at the end of March). Therefore all successful threshold crosser appeals, undertaken within the aforementioned window, will have a significant detrimental impact to the RbD sector, due to the profile of annual gas consumption. The impact is compounded where appeals are undertaken at the last possible moment, where reads are taken at the end of the winter consumption period.

The modification proposal seeks to maintain the incentives on Shippers to proactively monitor and pursue threshold crosser appeals, but also remove the perverse incentives on Shippers to ensure that appeals are concluded prior to, and as close as possible to, the post-Provisional AQ window.

It is proposed that where a successful threshold crosser appeal takes place, regardless of when the appeal is undertaken, either before or after the date when Provisional Annual Quantity calculations are undertaken by the Transporters, that the Supply Point will not be excluded from the End of Year Reconciliation calculations. However it is further proposed that the Supply Point will not be exposed to the full resulting Annual Quantity Revision Difference Transportation Charge, but instead will only be charged a proportion of the charge, this proportion being 90%.

Appendix 1 provides supplementary information relating to the Modification Proposal 640 Adjustments for the 2004/5 Gas Year and highlights the specific impact of AQ's appealed during the appeals window and therefore exempt from Annual Quantity Revision Difference Transportation Charges.

It further provides information relating to the Modification Proposal 640 Adjustment for the 2005/6 Gas Year, specifically in relation to the impact of AQ's appealed during the appeals window and therefore exempt from Annual Quantity Revision Difference Transportation Charges.

Consequences of not implementing this Proposal

The existing perverse incentives which are in place, will continue to exist and significant amounts of energy will continue to be allocated to the incorrect sector i.e. that this will be allocated in aggregate across SSP's, rather than being correctly applied to the LSP sector.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence

We believe that this modification proposal would further the relevant objectives as defined in SSC A11 of the Gas Transporters Licence as follows:-

By ensuring the correct allocation of energy and transportation charges following revision of Annual Quantities –

- (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:
 - (i) between relevant shippers
 - (ii) between relevant suppliers

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

The Proposer considers that this will have a minimal impact upon systems and require no system development. The processes for the calculation of reconciliation is already in place and implementation of this Modification Proposal would create a modest amount of additional calculations and reconciliation to perform.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) E

Proposer's Representative

Chris Wright (British Gas Trading Ltd)

Proposer

Chris Wright (British Gas Trading Ltd)

Appendix to Modification Proposal - Reconciliation following AQ Amendment

Modification Proposal 640 Adjustments - 2004/5 Gas Year

	(Mwh)
Initial Threshold Crosser Volume established	4,093,625
Less Exclusions Applied	
Shipper Transfers	989,372
Appealed during appeals window	205,916
Increases less than 15k and 20%	75,878
SSP to LSP after appeals window (no reconciliation)	341,787
Other Reasons (e.g. Duplicates)	149,098
Final Reconciliation Volume	2,331,574
Unreconciled Volume due to exclusions	1,271,166

Based on MOD640 Reconciliation invoices for the 2004/5 Gas Year, non-reconciliation of 'Appealed during appeals window' upward threshold crossers represents **£3M** of misallocated charges between the SSP and LSP markets.

Modification Proposal 640 Adjustments – 2005/6 Gas Year

	(MWh)
Appealed during appeals window	435,800

Based on MOD640 Reconciliation invoices for the 2005/6 Gas Year, non-reconciliation of 'Appealed during appeals window' upward threshold crossers represents **£10M** of misallocated charges between the SSP and LSP markets.