

**Draft Modification Report**  
**End of Year Reconciliation of Specific Categories of Smaller Supply Points**  
**Modification Reference Number 0640**

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

## **1. The Modification Proposal**

Following discussion within the Supply Point and Billing Workstream this Modification Proposal has been descoped to remove elements which proposed an 'end of year' reconciliation methodology with respect to Annual Quantity (AQ) amendments

Section 2 of this Modification Proposal explains the Workstreams rationale.

### **Events within scope.**

- Where a Smaller Supply Point ("SSP") becomes a Larger Supply Point ("LSP") at an AQ review, and the AQ increases by more than 15,000 kWh and 20%.

### **Events outside scope.**

- Supply Points meeting the above criteria which transfer to another User during the year
- Normal annual fluctuations in AQs within the Smaller Supply Point category
- Normal annual fluctuations in AQs resulting in the Supply Point becoming a Larger Supply Point, but the AQ increasing by less than 15,000 kWh or 20%.

### ***Upward Threshold Crossers – “Reconciliation” Methodology.***

Where a Smaller Supply Point becomes a Larger Supply Point as a result of the AQ Review in Year 2, the Year 2 AQ would be used to reconcile the Supply Point for Year 1.

Note that if the AQ increases to a value greater than the LSP threshold by an appeal before Transco performs the AQ calculation for the following year, no reconciliation would be made. If the AQ is moved above the LSP threshold by an appeal after that date, the reconciliation period would be reduced to equal the effective period of the original Year 1 AQ.

A: Year 1 AQ

B: Year 2 AQ

C: Appealed above LSP threshold - before Year 2 AQ calculation - no reconciliation

D: Appealed above LSP threshold - after Year 2 AQ calculation - reconcile to Date D only

Test 1: Is A below 73,200 kWh and B above 73,200 kWh?

Test 2: Is B-A more than 15,000 kWh?

Test 3: Is B more than 120% of A?

The User would be charged for the difference in allocation between A and B for the relevant End User Category (EUC) for Year 1 (or to live date of new AQ if appealed after the calculation of Year 2 AQs). Transportation commodity charges would be at the applicable Smaller Supply Point Rates and the associated energy costs will be at System Average Price. The charges would be issued as TRE (transportation) and GRE (energy).

No amendment will be made to capacity charges for the relevant year.

**Timing:** the calculation would be performed and invoices issued after the end of the relevant Gas Year.

**RbD Treatment:** the opposite impact of the transportation commodity and associated energy costs will be processed through RbD on the next available reconciliation invoice, based on the duration of the error, namely in the Domestic Portfolio Adjustment (Annual) sector.

No amendment would be made to RbD Market Shares for the change in AQ.

## 2. Transco's Opinion

It is Transco's opinion that this Modification Proposal should be implemented.

The measures contained within this Modification Proposal have been developed within the Supply Point & Billing Workstream, RbD sub-group and Billing Operations Forum.

Following exhaustive analysis and discussion, the Supply Point & Billing Workstream concluded that the scope of the Modification Proposal should be reduced to incorporate 'Upward Threshold Crossers' only. It was determined that the reconciliation methodology for AQ amendments originally identified within this Modification Proposal should be dispensed with as being superfluous and having little material benefit. The Workstream's rationale was that the need for an 'end of year' reconciliation associated with AQ amendments had not been substantiated. Members cited the effectiveness of Modification 0624 'Changes to the 2003 Annual Quantity (AQ) amendment process' which introduced specific provisions to the Network Code governing AQ amendment activity. Workstream members identified that there was currently no evidence of the problems experienced in previous years with regard to inappropriate AQ amendments.

Workstream members acknowledged that the inappropriate use of a SSP AQ where a site is consuming at Larger Supply Point ('LSP') levels (commonly termed 'threshold crossers') remained a concern given that under the current Reconciliation by Difference ('RbD') mechanism for invoicing Smaller Supply Points ('SSPs'), the RbD community can be adversely affected by the mis-statement of a User's total SSP portfolio Annual Quantity ('AQ').

Transco, therefore, believes that there should be a mechanism to address the AQ related anomaly described above to ensure appropriateness of transportation billing. There are mechanisms for retrospective adjustment which have been developed within RbD billing, but these can only presently be used for errors of portfolio completeness or existence, rather than mis-statement of AQ.

Transco's view is that an advantage of the methodology identified within this Modification Proposal is that it encourages ongoing monitoring and if necessary prompt appealing by Users of inappropriate AQs by Users.

Transco believes that it is appropriate that the 'threshold crosser' mechanism, described above, should be included within the Network Code to rectify potentially adverse effects associated with the AQ review which impact Users with Smaller Supply Points. The activity would enable aggregate commodity & energy corrected positions to be billed to the User and then applied through RbD to adjust each Users annual gas consumption. The procedure would apply to circumstances as defined in the Proposal, but not for normal year on year AQ fluctuations.

Unless the correction mechanism identified within this Modification Proposal is implemented, the opportunity for commercial gain as a consequence of failure by Users to ensure AQs are reflective of actual consumption would remain. Failure to ensure this could have a detrimental effect on Users with portfolios containing Smaller Supply Points.

**3. Extent to which the proposed modification would better facilitate the relevant objectives**

The measures identified within this Modification Proposal minimise risk to RbD Users by ensuring the accuracy and robustness of a key feeder process. The proposed mechanism is consistent with Transco's Licence 'Relevant Objective' to secure effective competition between relevant shippers and between relevant suppliers.

**4. The implications for Transco of implementing the Modification Proposal , including**

**a) implications for the operation of the System:**

No implications for the operation of the system have been identified.

**b) development and capital cost and operating cost implications:**

No such implications have been identified.

**c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:**

Minor administrative costs would be incurred by Transco as a consequence of implementing this Modification Proposal. Transco does not propose any additional cost recovery.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences have been identified.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal**

Implementation of this Modification Proposal would not increase the level of Transco's contractual risk.

**6. The development implications and other implications for computer systems of Transco and related computer systems of Users**

No changes would be required to Transco's UK-Link system to facilitate implementation of this Modification Proposal. Transco proposes to calculate the relevant 'end of year' reconciliation 'off-line' and utilise existing 'ad-hoc' invoicing functionality. Transco does not anticipate or has not been advised of any impact on Users' computer systems.

**7. The implications of implementing the Modification Proposal for Users**

It is expected that minor changes to relevant Users' processes would be required to accommodate implementation of this Modification Proposal.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party**

No such implications have been identified.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal**

No such consequences have been identified.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages:

- Ensures that relevant transportation charges are incurred by Users 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.
- Promotes prompt and timely monitoring and appealing of AQs by Users where an AQ 'threshold crosser' occurs.

Disadvantages:

No disadvantages have been identified.

**11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

Representations are now sought.

**12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation**

Implementation of this Modification Proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

This Proposal is not required to facilitate any such change.

**14. Programme of works required as a consequence of implementing the Modification Proposal**

No programme of works are required to implement this Modification Proposal.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

This Modification Proposal could be implemented with immediate effect. Transco would undertake the first reconciliation exercise in the fourth quarter of 2004.

**16. Recommendation concerning the implementation of the Modification Proposal**

Transco recommends that this Modification Proposal be implemented.

**17. Text**

**SECTION E: DAILY QUANTITIES, IMBALANCE AND RECONCILIATION**

*The following shall be added as a new paragraph 1.3.8:-*

“1.3.8 **“End of Year AQ Reconciliation”** is a reconciliation and adjustment in respect of gas offtaken from the System and certain Transportation Charges, following a revision of the Annual Quantity, in respect of quantities determined in accordance with paragraph 7.4.

*The heading to paragraph 7.4 shall be amended to read:-*

“Annual Quantity revision and End of Year AQ Reconciliation”

*Add the following as new paragraphs 7.4.3 to 7.4.5:-*

“7.4.3 Where, as a result of the revision of the Annual Quantity of a Smaller Supply Point pursuant to Section G1.6, the Supply Point becomes a Larger Supply Point and:-

(a) the Annual Quantity is increased by more than:-

- (i) 20% of the Annual Quantity at the start of the preceding Gas Year; and
  - (ii) 15,000 kWh; and
  - (b) there has not been a change in Registered User for the Supply Point since the last revision of the Annual Quantity of the Supply Point pursuant to Section G1.6; and
  - (c) the Annual Quantity of the Supply Point was not increased such that the Smaller Supply Point became a Larger Supply Point prior to the Provisional Annual Quantity being calculated by Transco
- then paragraph 7.4.4 will apply.

7.4.4 In the circumstances set out in sub-paragraph 7.4.3 above:-

- (a) the User Annual Quantity Revision Difference shall be extinguished by a System Clearing Contract in accordance with Section F5;
- (b) for the purposes of Section F5, the Reconciliation Clearing Charge in respect of a System Clearing Contract under paragraph 7.4.4(a) shall be the User Annual Quantity Revision Difference Clearing Value;
- (c) the User Annual Quantity Revision Difference Transportation Charge Adjustment shall be payable by an adjustment in respect of the NTS Commodity Charge, LDZ Commodity Charge and Commodity Variable Components (if any) of the Customer Charges underpaid by the User in respect of gas offtaken by the User in the relevant period;
- (d) the User Annual Quantity Revision Difference Transportation Charge Adjustment shall be payable by the User to Transco.

7.4.5 For the purposes of this paragraph 7.4:-

- (a) **“User Annual Quantity Revision Difference”** is:-
  - (i) in cases where the revision referred to in paragraph 7.4.3 is as a result of a successful appeal pursuant to Section G1.6.13, the sum of:-

$$(X - Y) * (RD / 365)$$

Where:-

X is the Annual Quantity of the Supply Point notified by Transco in respect of the following Gas Year;

Y is the Annual Quantity of the Supply Point notified by Transco in respect of the relevant Gas Year;

RD is the number of days from the start of the relevant Gas Year to the Day prior to the Supply Point Registration Date in respect of the Supply Point Reconfirmation referred to in Section G1.6.14;

- (ii) in all other cases, the sum of:-

$$(X - Y)$$

Where X and Y have the meanings given in paragraph (i) above.

- (b) The **“User Annual Quantity Revision Difference Clearing Value”** is the amount established by:-

- (i) Determining the additional NDM Supply Meter Point Demand for each day in the applicable period of the adjustment (under paragraph 7.4.5 (a)) as a result of the User Annual Quantity Revision Difference;
  - (ii) Multiplying the daily additional NDM Supply Meter Point Demand by the System Average Price for such day to determine the daily User Annual Quantity Revision Difference Clearing Value; and
  - (iii) Aggregating the daily User Annual Quantity Revision Clearing Values for all days in the applicable period of the adjustment.
- (c) **“User Annual Quantity Revision Difference Transportation Charge Adjustment”** is the amount established:
- (i) Multiplying the daily additional NDM Supply Meter Point Demand (under 7.4.5 (b) (i)) for each day in the applicable period by the Applicable Commodity Rate of the NTS Commodity Charge, the LDZ Commodity Charge and the Commodity Variable Component (if any) of the Customer Charge for such day to determine the daily reconciliation charge adjustment; and
  - (ii) Aggregating the daily reconciliation charge adjustments for all days in the applicable period of the adjustment.

## **SECTION F: SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY**

*Paragraph 5.1.1 shall be amended to read:-*

“5.1.1 Upon each Individual Reconciliation, Aggregate NDM Reconciliation and End of Year AQ Reconciliation, the quantity of gas comprising.....”

*The following shall be added as a new sentence at the end of paragraph 5.2.1:-*

“The Clearing Charge (**“End of Year AQ Reconciliation Clearing Charge”**) in respect of the System Clearing Contract under paragraph 5 shall be the Annual Quantity Revision Difference Clearing Value in accordance with Section E7.4.5.”

*Paragraph 5.2.2 shall be amended to read:-*

“5.2.2 The buyer shall pay the Reconciliation Clearing Charge, the Aggregate Reconciliation Clearing Charge or the End of Year AQ Reconciliation Clearing Charge to the seller.”

*Paragraph 5.2.3 shall be amended to read:-*

“5.2.3 The Reconciliation Clearing Charge, the Aggregate Reconciliation Clearing Charge or the End of Year AQ Reconciliation Clearing Charge shall be invoiced and payable in accordance with Section S.”

*The following shall be added as a new paragraph 5.2.6:-*

“5.2.6 The End of Year AQ Reconciliation Clearing Charge shall be treated as payable for the purposes of End of Year AQ Reconciliation as and when invoiced by Transco in accordance with the provisions of Section S.”

***Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report***



Signed for and on behalf of Transco.

Signature:

**Leah Fry**  
**Customer Account Manager**

**Support Services**

Date: