

**Modification Report**  
**Clarification of Timescales to Revise AQ for Small Supply Point threshold-crossers**  
**Modification Reference Number 0089**  
Version 2.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

## **1. The Modification Proposal**

### **Summary of Modification 0640**

Modification 0640 “End of Year Reconciliation of Specific Categories of Smaller Supply Points” placed an incentive on Shippers to submit AQ revisions if they reasonably believe that a Small Supply Point has increased its offtake so that it becomes a Large Supply Point.

The Modification introduced the concept of a “User Annual Quantity Revision Difference Transportation Charge Adjustment” which is charged to Shippers for any Supply Point that is not revised prior to the Provisional AQ calculation.

TGP believes that the current deadline operated by xoserve is not in keeping with the intention of Modification 0640 and that operational efficiency is being penalised as a result. The purpose of this Modification is to provide clarity on the timescales required.

### **Rationale of New Modification**

Section TPD G 1.6.2 states that *“no later than the AQ Review Date the Transporter shall determine the Provisional Annual Quantity in respect of each Supply Meter Point”* and TPD G 1.6.1 (c) further states that *“the “AQ Review Date” is a date which the Transporters determine but shall in any event be no later than 31 May in the preceding Gas Year.”*

The start date of the Provisional AQ calculation is determined by xoserve and is communicated to all Shippers through the AQ sub-group. According to xoserve, the calculation takes a couple of months, with repeated refinements of the initial calculation undertaken up to 31 May. The information is then released to the community, with Small Supply Point Information being released by 31 May and Larger Supply Point Information by the 30 June, to enable Shippers to validate the proposed AQs.

xoserve has interpreted the UNC to mean that any Shipper AQ revisions need to be submitted prior to the start of the Provisional AQ calculation. We understand this is to prevent xoserve being placed under pressure from Shippers to be given early indication of their prospective AQs.

We contend that this interpretation is contrary to the intention of Modification 0640. Mod 640 addressed the concern that Users could selectively tailor their AQ submissions to take account of the revised AQ values calculated by the Transporters. However until the calculated values are released Users do not have sight of the revised AQ values generated by xoserve.

There are obvious benefits in utilising a meter read obtained at the end of the winter period to support the AQ review; otherwise actual peak consumption of a site will not be taken into account. At present these reads are not available until well after the mid-March cutoff date. In

order to capture these reads and ensure optimum AQ values are submitted, it seems appropriate therefore that shippers have a more realistic cut-off date and we proposed that Shipper AQ revisions should be accepted up to 30 business days (six business weeks) after the initiation of the Provisional AQ calculation to enable xoserve to complete an initial calculation for all Supply Points.

### **Consequence of non-implementation**

If the modification is not implemented, there will be continuing ambiguity over the deadline by which shippers are required to submit revisions, with sub-optimal AQ revisions as a consequence.

## **2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

Clarification that the cut-off point of the submission is at the end of the Provisional Annual Quantity calculation will improve the quality of the AQ revision by enabling users to utilise winter period meter readings. Therefore implementation of this modification would increase cost reflectivity and so better facilitate the achievement of the relevant objective:

*A11.1 (d) The securing of efficient competition between relevant shippers, suppliers and DN operators.*

The potential for improved accuracy will also facilitate the economic and efficient operation of the pipeline system.

BGT does not believe that this Modification would further the relevant objectives as set out in section A11.1(d) of the Transporter Licence. On the contrary BGT believe that the implementation would detract from securing effective competition between relevant Shippers & Suppliers through the mis-allocation of charges across market sectors.

RWE believe that implementation of this Modification Proposal will improve the accuracy of consumption data held by Transporters which will also facilitate the economic and efficient operation of the pipeline.

SGN, SSE and TGP believe the Implementation of the Modification should promote efficiency in implementation and administration of the UNC.

TGP believe defining a clear cut-off date of 30 business days after the commencement of the provisional AQ calculation will allow all Shippers have a consistent interpretation of the UNC requirements, work to a clear deadline and allows additional time to procure meter readings. This enables the Shipper to calculate revised AQ values with increased accuracy of revised AQs and hence encouraging competition through appropriate cost targeting.

**3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

No such implications are anticipated.

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

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

No such implications are anticipated.

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

No significant development, capital or operating cost implications are anticipated.

TGP added that UK Link currently operates to a deadline for submission of reads. This modification will adjust the current deadline, so the program of works undertaken by xoserve to implement this modification will be relatively minor.

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

It is not anticipated that this Proposal will result in any increased costs. However it is proposed that any possible administrative cost associated with changes to xoserve processes will be recovered through all Transporters.

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

No such consequences are anticipated.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequences are anticipated.

**6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

xoserve will be required to make a minor adjustment to its processes to incorporate a later start date for calculation of the User Annual Quantity Revision Difference Transportation Charge. It is not anticipated that any system changes will be required.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Users have suggested there would not be any significant implementation costs for Users as a result of implementing the Proposal.

NG UKD stated that if a smaller number of End Of Year Reconciliations are triggered there would be an increased cross-subsidy between individual Users at Smaller Supply Points with large consumptions and all RbD Users.

TGP believe that clarifying the re-nomination deadline for a site gives a Shipper certainty as to the obligations placed upon them with regard to revising AQs. This will enable them to plan their meter reading procurement for appropriate sites to ensure that any revised AQs are accurate. This will result in a more appropriate targeting of resources, and may result in efficiency savings as Shippers reduce the amount of additional reads procured for this process. TGP do not anticipate any increase in workload for Shippers.

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

TGP believe that the ability for Shippers to use a wider range of reads, encompassing the winter peak, will ensure that AQs will be more accurate for the Large Supply Points sites affected and consequently all Small Supply Points will benefit. This should improve cost targeting to Shippers, and so improve the accuracy of customer billing.

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

TGP believe that Shippers will have their contractual obligations clarified through the insertion of a clear revision deadline into the UNC.

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

**Advantages**

- Clarifies current obligations on Users.
- Improves operational efficiency by allowing Users to submit readings utilising winter readings.
- Aligns operational practice with the intent of implemented Modification 0640.

**Disadvantages**

- None identified.

BGT did not agree with three advantages offering the following comments:

- Clarifies current obligations on Users

BGT do not agree that there is any ambiguity with regards the timeline for AQ revision submissions & therefore clarification is not required.

- **Improves operational efficiency**  
BGT do not agree with the proposer's assertions that Mod 089 would improve operational efficiency & have not been presented with evidence in support of this.
- **Aligns operational practise with the intent of Mod 640**  
Through the creation of incentives, the implementation of Mod 640 led to a significant improvement to the accuracy & equitability of the gas settlements process. This draft Modification report seeks to dilute those very incentives that Mod 640 created & would result in an increase to the volume of unreconciled energy, reducing the accuracy & equitability of Settlement & increasing the volume of RbD through misallocated charges from the LSP sector. Mod 089 certainly works against both the intent & the practical operation of Mod 640.

NG UKD identified the following Advantages and Disadvantages:

**Advantages**

- Decreases the number of End of Year Threshold Crosser calculations, if Users are active in appealing in the additional 30 business days requested by the proposer. This reduces the workload for xoserve in calculating those Reconciliations and for Users in validating.

**Disadvantages**

- If there is a reduction in End of Year Reconciliations, this would increase the cross-subsidies between individual Users at SSPs with large consumptions and all RbD Users, by reducing the amount of energy reallocated from Smaller Supply Points to newly increased Larger Supply Points.

TGP identified the following Advantages:

**Advantages**

- Clarity of the obligations placed upon Shippers with regard to revising threshold crosser AQs.
- Significant improvement in data quality for threshold crosser sites as winter readings can be used.
- Overall beneficial impact on RbD as AQ revisions for Large Supply Points are substantially improved.

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

Representations were received from the following parties:

<b>Organisation</b>	<b>Abbreviation</b>	<b>Position</b>
British Gas Trading	BGT	Not in Support
National Grid Distribution	NG UKD	Not in Support
RWE npower	RWE	Supports
Scottish Power	SP	Not in Support
Scotia Gas Networks	SGN	Supports
Scottish and Southern Energy	SSE	Supports
Total Gas & Power	TGP	Supports

BGT strongly opposed this modification stating as a consequence of its implementation it would undo the improvements that Mod 640 implemented & would act as a lever for further commercial gain with charges being misallocated amongst RbD shippers. BGT also wished to cross reference their formal response to UNC Modifications 94/95/96 where they state that they have provided material evidence as to why the three mod 640 exclusions should now in fact be removed from the UNC. BGT believes that this evidence further substantiates their rejection of this Modification.

NG UKD do not support measures that would potentially reduce the amount of energy reallocated from Smaller Supply Points to newly increased Larger Supply Points under the reconciliation process introduced by Modification 0640. xoserve have estimated that the proposal if implemented could remove 50gWh or more from the Mod 0640 reconciliation at a direct cost to Smaller Supply Point Users.

NG UKD offered the following comments on the provided Legal Text "it is Section E7.4.3(c) which details the relevant exclusion from the Modification 0640 annual reconciliation (E7.4.4). As such, this would appear to be the relevant location to specify that the AQ must be increased within 30 business days of the commencement of the Provisional Annual Quantity calculation to avoid the annual reconciliation as opposed to within Section G1.6.3 as detailed within the Draft Modification Report. Alternatively, as currently drafted, introducing the following text: "*A User shall be required to submit to the Transporter any revisions to the Annual Quantity within 30 Business Days from commencement of the Provisional Annual Quantity calculation*) within G1.6.3 has the potential to conflict with G1.6.13 which details that the User has until 31 July to submit an AQ Appeal."

RWE agree that Shipper AQ revisions should be accepted up to 30 business days after the initiation of the Provisional AQ calculation to enable xoserve to complete an initial calculation for all supply points. Including the obligation for Shippers to be informed of the commencement date of the Provisional AQ calculation ensures that there is no ambiguity within the process. RWE believe that the proposed extension for a User to submit AQ revisions that include meter reads taken in the winter period will improve the accuracy of AQs. By including Winter consumption we feel that the AQs will reflect real usage at sites which will help to ensure that Shippers are more accurately charged for their portfolios.

SP do not support the implementation of this Modification Proposal as Shippers have until the commencement of the Provisional Annual Quantity calculations to submit AQ appeals to increase Smaller Supply Point offtakes values so that they become Larger Supply Points in order to avoid Mod 640 reconciliation charges. SP believe the current appeal window provides more than adequate time for Shippers to submit AQ appeals. Should this Modification Proposal be implemented to allow appeals until the end of the Provisional Annual Quantity calculation, this will increase the volume of misallocated energy that flows through RbD settlement. SP are of the view that Shippers need to proactively manage their Supply Point portfolio and therefore should be incentivised to appeal erroneous AQ values as early in the process as possible.

SGN believes the proposal helps address concerns regarding current UNC provisions and provides greater clarity regarding timescales and processes. Under this proposal, Transporters would be required to give at least 30 Business Days notice prior to commencing AQ calculations and Shippers would be able to submit revisions up to 30 Business Days after Transporters had commenced calculations. Adding this proposal should help encourage Shippers to provide updates where there is an increase in their annual quantity and helps ensure Shippers can utilise meter reads obtained at the end of the winter period to support the AQ review. As such it could lead to a potential decrease in the number of calculations, hence reducing the Reconciliation workload for xoserve and validation workload for Users.

SSE agreed with the Proposer that Shipper AQ revisions should be accepted up to 30 business days after the initiation of the Provisional AQ calculation to enable xoserve to complete an initial calculation for all supply points and for xoserve to inform shippers of the Provisional AQ calculation commencement date.

TGP believe that the proposed revised deadline of thirty business days after the commencement of the provisional AQ calculation is unambiguous and has the added benefit of allowing sufficient time to incorporate winter readings into calculations. In addition, providing clarity as to the exact nature of the deadline, and allowing the use of winter readings, will remove the perverse incentive on Shippers to use poor quality readings to determine the AQ of a site to avoid paying the User Annual Quantity Revision Difference Transportation Charge Adjustment.

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

Implementation is not required to enable each Transporter 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 paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

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

The SME notes that some work may be required by xoserve to change processes.

TGP agreed that xoserve will be required to adjust their processes to take account of the revised deadline. TGP do not anticipate this work to be significant however, as it should involve little more than an adjustment to parameters that currently exist within UK Link.

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

This Proposal can be implemented as soon as it is approved by Ofgem. However the SME notes that consideration may need to be given to any changes that may need to be carried out by xoserve.

SGN believe the change can easily be implemented for initial calculations undertaken in March 2007.

TGP believe in order for the revised deadline to be effective for 2007, the Modification will need to be implemented by the end of 2006.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

At the Modification Panel meeting held on 19 October 2006, of the 10 Voting Members present, capable of casting 10 votes, 5 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel did not recommend implementation of this Proposal.



## **18. Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

## 19. Text

### UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

#### SECTION G - SUPPLY POINTS

Amend paragraph 1.6.3 to read as follows;

The Transporter shall inform all Users of the commencement date of the Provisional Annual Quantity calculation for the relevant Gas Year at least thirty Business Days prior to the commencement of the Provisional Annual Quantity calculation. A User shall be required to submit to the Transporter any revisions to the Annual Quantity within 30 Business Days from commencement of the Provisional Annual Quantity calculation. The Transporter shall no later than 31 May in the preceding Gas Year for Smaller Supply Meter Points and 30 June in the preceding Gas Year for Larger Supply Meter Points in respect of each Supply Meter Point notify to the Registered User the Provisional Annual Quantity in respect of the relevant Gas Year and supporting details including:

(a) the Supply Meter Point Reference Number; and

(b) where available, the Meter Readings used by the Transporter to determine the Provisional Annual Quantity.

Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**

Signature:

Date :