

Modification proposal:	<b>Uniform Network Code (UNC) 089: 'Clarification of timescales to revise AQ for smaller supply point threshold-crossers'.</b>		
Decision:	The Authority <sup>1</sup> has decided to reject this modification proposal		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	30 November 2006	Implementation Date:	Not applicable

## Background to the modification proposal

Under the terms of the UNC, Gas Transporters (GTs) undertake an Annual Quantity (AQ) review<sup>2</sup>; a review of the amount of gas consumed at each Supply Point on the pipe-line system to enable an estimate to be undertaken of the gas to be consumed the next relevant gas year.

The first stage of the AQ review process requires the GT<sup>3</sup> to calculate and send provisional AQ values to UNC Users (shippers) for each Supply Meter Point. This process is undertaken by no later than the AQ Review date; which is by the 31 May in the preceding Gas Year for Smaller Supply Points (SSPs).

To initiate this process xoserve will communicate the start of the Provisional AQ (PAQ) calculations to all Shippers through the AQ sub-group, by mid-March of the preceding gas year. In doing this, xoserve requests that Shippers submit any AQ revisions for the existing gas year before the start of the PAQ calculation. To enable Shippers to validate the proposed AQs, xoserve will then release the PAQ values to the community by no later than the 31 May in the preceding Gas Year.

Following the notification of the PAQ and subject to the relevant provisions, Users can notify xoserve that the PAQ does not satisfy the requirement of the UNC by no later than the 13 August in the preceding Gas Year. If a notification by the User does not comply with the requirements, GTs are entitled to reject Users PAQ without consideration, notice or liability. The AQ values assessed under the AQ review not only drive the allocation of energy for consumption billing processes, but underpin the calculation of daily consumption on Non-Daily Metered supply points for energy balancing purposes.

Under the AQ review process, a number of SSPs are identified as having larger consumptions and have crossed the 73,200 kWh threshold (known as 'threshold crossers'), meaning they should ordinarily be classified as Larger Supply Points (LSP). LSPs are subject to individual reconciliation, rather than Reconciliation by Difference (RbD). Incorrect classification of Supply Points can result in the misallocation of costs, generally to the detriment of the 'RbD community'.

Approved Modification 640<sup>4</sup>, enabled GTs to undertake an end of year reconciliation for those Supply Points which had previously been categorised as SSPs and therefore not subject to individual reconciliation. In addition, Modification 640 introduced a 'User Annual Quantity Revision Difference Transportation Charge Adjustment', which is a charge to shippers for any Supply Point that is not revised prior to the provisional AQ

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> The AQ review process is set out in [UNC Section G1.6](#)

<sup>3</sup> The AQ review is undertaken by the agent of the GTs, xoserve

<sup>4</sup> Network Code Modification 640 'End of Year Reconciliation of Specific Categories of Smaller Supply Points' which can be viewed at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17175\\_640D.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17175_640D.pdf), which was approved in June 2004

calculation. Modification 640 therefore placed an incentive on Shippers to submit early AQ revisions where a SSP has crossed the threshold to be classified as an LSP.

Modification 640 also contained three exclusions, two of which were removed through UNC Modification 094 and 095<sup>5</sup>. As a result, one exclusion remains (currently contained in UNC section E7.4.3, which prevents end of year reconciliations for threshold crossers where the AQ was revised above the threshold by the shipper, prior to the GT issuing a PAQ.

### **The modification proposal**

xoserve, requires Shippers to re-declare any site that meets the criteria for a threshold crosser by the start date of the PAQ calculations (by mid-March). The Proposer considers that this interpretation of the UNC provision has not been unanimously agreed by all Shippers. The Proposer considers that:

- xoserve's interpretation of the UNC provisions places unnecessary restrictions upon the data that Shippers may use in determining a more accurate AQ value or a site. For example, the Proposer considers that as some small sites have their meters read twice a year, many sites will not have sufficient readings for a picture of their consumption to be formed until April. In addition that a mid-March deadline to re-declare any site does not take into account a meter read obtained at the end of the winter period to take into account actual peak consumption of a site.
- xoserve does not clearly communicate the deadline to shippers and therefore creates ambiguity over Shippers AQ submissions.

The Proposer considers that these issues create a sub-optimal AQ revision process, which negatively impacts on the operational efficiency

Modification Proposal 089 therefore seeks to obtain clarity of the cut-off point required for Shippers to revise the PAQ calculations, by:

- 1) Requiring xoserve to formally announce to shippers when the PAQ calculations will commence, 30 business days before the calculations are initiated.
- 2) Allowing Shipper AQ revisions to 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.

In doing this, the Proposer considers that improvements will be made to the quality of the AQ revision process, by allowing a more realistic cut-off date, which will enable Users to utilise winter period meter readings. The Proposer considers that this will also remove the perverse incentive on Shippers to use poor quality readings for determining the AQ of a site to avoid paying the User Annual Quantity Revision Difference Transportation Charge Adjustment and will ensure that optimum AQ values are submitted. The Proposer therefore considers that the implementation of this proposal would further facilitate relevant objective d) of the UNC, the securing of effective competition between relevant shippers and relevant suppliers.

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<sup>5</sup>[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17244\\_UNC094D.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/gasgovernance](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17244_UNC094D.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/gasgovernance) and [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17245\\_UNC095D.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/gasgovernance](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17245_UNC095D.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/gasgovernance)

## UNC Panel<sup>6</sup> recommendation

At its meeting held on 19 October 2006, the UNC Panel did not recommend implementation of this modification proposal.

## The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) version 2.0, dated 19 October 2006. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR<sup>7</sup>. The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC<sup>8</sup>.

## Reasons for the Authority's decision

We note that the Joint Office received nine responses to its consultation on this modification proposal, of which four were supportive, one offered qualified support, two were opposed and two provided comments only. Like the UNC Panel, we have considered this modification proposal primarily against relevant objectives (d) and (f), but note that some respondents considered the proposal to have benefits in respect of relevant objective (b).

*Relevant Objective (b) – so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters*

One respondent, a GT, suggested that from their perspective, the modification should help ensure more accurate AOs; which should provide benefits in terms of better understanding the demand on its network and allowing it to better plan and operate that network. Another respondent agreed that implementation of the proposal would improve the accuracy of consumption data held by GTs, which would facilitate the economic and efficient operation of the pipeline.

There is insufficient evidence within this FMR for us to conclude that there will be any efficiency savings for xoserve if this proposal were to be implemented. Indeed it could also be argued that removing the flexibility currently afforded to it, and extending the calculation window, could increase its costs. Notwithstanding these considerations, it is not apparent that any efficiency gain, or otherwise, should appropriately be considered under this relevant objective, given that xoserve is merely the agent of the GTs and does not itself operate the pipeline system.

Whilst we agree that the improved accuracy of AOs should allow GTs to better manage their networks, as mentioned below, there are a number of steps involved in the AO review process, and a number of stages at which accurate meter readings from the winter period can be utilised. We therefore consider this proposal to be neutral in respect of relevant objective (a).

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<sup>6</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>7</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>8</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://62.173.69.60/document\\_fetch.php?documentid=6547](http://62.173.69.60/document_fetch.php?documentid=6547)

*Relevant Objective (d) – the securing of effective competition between relevant shippers, suppliers and DN operators*

Several respondents suggested that the Proposal would enable shippers to utilise meter reads obtained at the end of the winter period, facilitating data improvement to support the AQ Review process. Some respondents considered that as such, it could lead to a potential decrease in the number of calculations carried out by xoserve, reducing the workload for both them and shippers. It was also argued that the improved accuracy of AQs will encourage competition through appropriate cost targeting.

However, several respondents considered that this modification would be detrimental to competition, in particular as it could increase the volume of gas being omitted from individual reconciliation process, and therefore flowing into RbD settlement. It was noted that modification 640 has led to significant improvements to the accuracy and equitability of the gas settlement process, partly through the introduction of incentives to identify threshold crossers in a timely manner. Some respondents felt that this proposal would diminish the incentives on shippers to proactively manage their portfolios and appeal erroneous AQ's as early as possible in the process. One respondent suggested that xoserve has estimated that the proposal, if implemented could remove 50GWh or more of energy from individual reconciliation, at a direct cost to RbD shippers, though they did not provide evidence of this. Some of these respondent stated that the modification proposal was therefore detrimental to relevant objective (d).

We agree with the Proposer's assertion that the AQ review process should be based as far as possible on accurate data. However, we do not consider that the current arrangements preclude the use of meter readings obtained in the winter period. As commented on by one respondent, a user may challenge the PAQ for a supply point at any point up to 13 August in the preceding year.

Whilst we recognise that this is too late to avoid the User Annual Quantity Revision Difference Transportation Charge Adjustment, as allowed by the exclusion in Section E7.4 of the UNC, the avoidance of this charge was not the stated intent of the proposal. We also consider that it should be possible for shippers to obtain sufficient meter reading information to calculate whether a supply point will cross the LSP threshold ahead of this date, and therefore avoid the revision charge. For instance, Section G 1.6.6 of the UNC states that the PAQ should represent reasonable assumptions.

Further, we agree with the proposer that there is some ambiguity within the current provisions on when the PAQ calculation should be considered to have commenced. It is therefore not clear to us why, for instance, it is considered that meter reads from the winter period cannot feed into the PAQ calculation up to and including the 31 May.

*Relevant Objective (f) – promotion of efficiency in the implementation and administration of the network code and/or uniform network code*

Several respondents suggested that in providing greater clarity on the current UNC provisions, in particular the timescales and processes, this modification proposal would promote efficiency in the implementation and administration of the UNC.

However, another respondent did not consider that there is any ambiguity with regards to the timeline for AQ revision submissions and therefore clarification is not required.

We have some sympathy with the element of the proposal which would provide a fixed date for the commencement of AQ calculations, as opposed to it being, to an extent, at xoserve's discretion. Whilst we recognise that this flexibility may offer practical benefits to xoserve, not least in terms of its own operational efficiency, it does make it more difficult for shippers to plan their own arrangements. In particular, we consider that a fixed date may allow shippers to better plan their own part in the review process, and even schedule meter readings to the maximum effect.

#### *Legal text*

We note that whereas the legal text provided by the proposer suggested modification to Section E of the UNC, the text provided as part of the modification report sought to modify Section G. Specifically, the proposer suggested text sought to allow at least 30 business days from the commencement of the PAQ calculation to revise a SSP to a LSP. The clause it sought to modify is the exclusion introduced as part of modification 640, allowing shippers to avoid the User Annual Quantity Revision Difference Transportation Charge Adjustment.

One respondent also suggested that as drafted, the legal text had the potential to conflict with the existing provisions of Section G. As we are rejecting this modification proposal for the reasons outlined above, we have not considered the comments on legal drafting in detail for this particular decision, but would encourage UNC Parties, in particular the UNC panel, to address such issues whenever they are raised prior to issuing the FMR to the Authority.

In conclusion, for the reasons set out above, whilst we consider that the implementation of this modification could further relevant objective (f), this is outweighed by the potential adverse impacts, particular upon RbD shippers. We therefore consider this proposal would be detrimental to relevant objective (d).



**Nick Simpson**

**Director, Industry Codes & Licensing**

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