

Modification proposal:	Uniform Network Code (UNC) 094: "Reconciliation following AQ Amendment, SSP becoming LSP with change of <20% or 15,000kwh".		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	30 October 2006	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Under the terms of the UNC, Gas Transporters (GTs) have to undertake an Annual Quantity (AQ) review³, which is an annual review of the amount of gas consumed at each Supply Point on the pipe-line system.

The first stage of the AQ review process requires the GTs to calculate provisional AQ values and send these to UNC Users (shippers). The UNC describes how AQs may be amended by shippers and their obligations in approaching this exercise in a consistent and balanced way. The quantities assessed under this process 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.

As a result of this review, a number of Smaller Supply Point (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'⁴.

Modification 640⁵, which was approved in June 2004, enabled the 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. However, in recognition that a number of these sites may oscillate around the 73,200 kWh SSP threshold year by year, modification 640 contained a number of exclusions to this requirement. Therefore, end of year reconciliations are not carried out for threshold crossers where:

- the AQ increases by less than 15,000kWh or 20%;
- the Supply Point has transferred to another User during the past year; or
- the AQ was revised above the threshold by the shipper, prior to the GT issuing a provisional AQ.

Where the threshold crosser is not subject one of the exclusions listed above, Section E7.4.4 of the UNC will apply which, in particular, will make the registered shipper liable for a User Annual Quantity Revision Difference Transportation Charge Adjustment⁶ ('revision charge').

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

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ UNC Section G1.6.4

⁴ Shippers whose portfolio is made up predominantly of SSPs and therefore subject to RbD.

⁵ 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

⁶ Defined under UNC Section E7.4.5

The modification proposal

Modification Proposal 094 seeks to remove the exclusion contained in UNC section E7.4.3 (a)⁷ and would therefore allow the reconciliation of all LSPs which were previously SSPS prior to the AQ revision, regardless of the scale of change of the AQ.

The Proposer considers that the implementation of Approved Modification 640 resulted in a significant improvement to the accuracy and equitability of the gas settlement processes. However the Proposer states that information provided by xoserve shows that the current volume of energy equated to the exceptions is in the region of 1,407,037 Mwh, representing £17 (approx) at today's energy costs. The Proposer therefore considers that the exemptions are not immaterial and that a significant amount of energy is currently being allocated in aggregate to the incorrect sector, i.e. being allocated in aggregate across SSPs rather than correctly applied to LSPs.

By ensuring the correct allocation of energy and transportation commodity charges following revision of the AQ, the Proposer considers that Modification Proposal 094 will better facilitate the relevant objectives⁸.

UNC Panel⁹ recommendation

At its meeting held on 21 September 2006, the UNC Panel recommended by a majority that this proposal be implemented.

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 21 September 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 FMR¹⁰. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹¹; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹².

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. The majority of those in support of the

⁷ http://www.gasgovernance.com/NR/rdonlyres/BA92D3A2-10D2-4232-BFB7-A75D1BF204B1/9001/02_06_TPDE.pdf

⁸ 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

⁹ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

¹⁰ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹¹ 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

¹² The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

proposal agreed with the proposer that it would lead to a more accurate allocation of costs, and therefore facilitate effective competition.

We approved Modification 640 with the exemptions on the basis that it introduced an equitable arrangement to reconcile the energy and transportation commodity charges and rectify the potentially adverse effects associated with the AQ review which impact RbD shippers. In this respect, we acknowledge respondent views that Approved Modification 640 has resulted in significant improvement to the accuracy and equitability of the gas settlement processes and has reduced the volume of un-reconciled energy and providing an incentive upon shippers to ensure that AQ amendments are accurate.

The 15,000kWh or 20% tolerance band was intended to exempt those Supply Points which oscillate around the 73,200kWh threshold from end of year reconciliation, given that they may shortly need to be reclassified as going below the threshold. It was considered during that development of modification 640 that a significant number of Supply Points move from one market sector to another and that absent a tolerance levels, there may be a substantial increase in the number of required reconciliations.

One respondent, suggested that while the current exclusion levels appear to be excessive, before a decision is made to remove them completely it would be appropriate for analysis to be produced to determine if a more suitable and thereafter agreeable level could be introduced. They went on to suggest that a revision of the tolerance values to more suitable levels may go a long way to delivering the majority of the benefits outlined within the modification proposal, while protecting the industry from having to undertake a large number of reconciliations to account for genuine AQ movements across the AQ threshold.

One respondent suggested that whilst the removal of this exclusion criterion will result in a marginal improvement to the data quality held by xoserve, it will increase workload of shippers in firstly monitoring their portfolio for such changes and secondly adjusting AQ's to reflect these changes. Another suggested that they were not able to support the implementation as they believe it will introduce a very large increase in operational activity for GTs and shippers alike. Another commented that the benefit and materiality of this modification proposal should be assessed against potential implementation costs. The proposer stated that this proposal does not change the way in which a shipper would operate the AQ Review, or any other industry process. Instead, they ensure that if a shipper operates present AQ amendment processes inaccurately, the consequences of such an error are corrected.

Whilst we have some sympathy with the view that this modification could increase the administrative workload upon both shippers and GTs (xoserve), we do not consider that this will be material. We agree that it would have been beneficial for some analysis to have been carried out as part of the development of this proposal, to demonstrate whether there is a more appropriate tolerance band than the current 15,000kWh or 20%. However, whilst the LSPs excluded from individual reconciliation in 2004/2005 accounted for around 1,400 GWh of consumption¹³, only 75 GWh of this figure was due to the section E7.4.3 (a) tolerance band. This equates to around 1,000 Supply Points that would otherwise have been subject to individual reconciliation. We anticipate that this figure will be similarly low in subsequent years. We also note that the implementation of this proposal will not introduce additional complexity, rather it will remove one of the filters currently being applied by xoserve.

¹³ Source: RbD sub-group minutes, June 2006.

One respondent considered that this modification may potentially expose shippers to costs for which they might not be responsible, though they did not elaborate how. We consider that the effect of this proposal will actually be to further ensure that shippers are not exposed to inappropriate costs

Given the above we consider that UNC modification 094 will better facilitate the securing of effective competition between relevant shippers and suppliers¹⁴.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 094: '*Reconciliation following AQ Amendment, SSP becoming LSP with change of <20% or 15,000kwh*' be made.



Nick Simpson

Director, Industry Codes & Licensing

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

¹⁴ 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