Modification Report
Reconciliation following AQ Amendment, SSP becoming LSP following change of Registered User
Modification Reference Number 0095
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

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 the Supply Point to be re-classified as a Larger Supply Point (LSP). The Modification Proposal (640) contained a number of exclusions in order to simplify the amendment. These exclusions were considered, at the time, to be of little significance and of low materiality. However, it is now apparent from figures made available by [xoserve at a Billing Operations Forum] that this is not the case.

These exclusions are contained within Paragraph 7.4.3 of Section E

"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 at least by

(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 the Transporter

then paragraph 7.4.4 will apply."

This Modification Proposal seeks to remove the exclusion contained at 7.4.3 (b) and would therefore allow the reconciliation of all Larger Supply Points (LSPs) which were previously Smaller Supply Points (SSPs) prior to the AQ revision, regardless of the fact that there has been a change in the Registered User for that Supply Point since that last revision to the AQ.

For the avoidance of doubt, it is the intent of this Modification Proposal that where this reconciliation does take place, the reconciliation quantities are applied to current and previous User in proportion to the duration of their registration of that supply.

Consequence of not making this change

Significant amounts of energy will continue to be allocated to the incorrect sector, i.e. that this will be allocated in aggregate across SSPs rather than correctly applied to the LSP sector.

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

By ensuring the correct allocation of energy and transportation commodity charges following revision of Annual Quantities, implementation of this Modification Proposal would further cost reflectivity and so further achievement of the relevant objectives as defined in SSC A11 of the Gas Transporters Licence as follows:-

(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

EDF agreed with the Proposer that implementation "would ensure effective allocation of costs amongst shippers and suppliers". EDF believe that under the current UNC the exclusions present an artificial barrier to supply points being correctly classified as Large Supply Points that could result in the incorrect allocation of costs for a significant period of time. EDF argued that implementation of this proposal would ensure that any imbalance charges are targeted at those shippers who are causing the imbalance. This combined with the current incentives to balance positions, would reduce the balancing actions required of the residual system balancer and allow it to operate the system more efficiently and economically.

NG UKD pointed out that a User could be deterred from taking on a consumer with an understated AQ, for fear of picking up a large charge during End of Year Reconciliation. The User might refuse to sign-up the consumer until the AQ has increased above the threshold, by either appeal or annual AQ review. This could become a barrier to competition for the affected sites.

STUK agreed that implementation of this Modification Proposal would better facilitate the relevant objectives by ensuring the correct allocation of energy and transportation commodity charges following revision of AQs, hence securing effective competition between Shippers and Suppliers.

SSE supported implementation because it should result in an increase in the amount of gas settled on actual meter reads. This in turn should result in greater accuracy and therefore efficiency, assuming that there are no significant development costs.

TGP suggested the removal of any exclusion criteria would only result in a marginal improvement in the level of data quality held by xoserve. This improvement would be negligible compared to the increased workload incurred by Shippers in firstly monitoring their portfolio for such changes, secondly adjusting AQ’s of sites that have been acquired mid-year and thirdly resolving any payment discrepancies through the inter-shipper dispute process. Implementation would not, therefore, further achievement of the relevant objectives.

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

The implementation of this proposal should not have any effect on security of supply, operation of the Total System, or industry fragmentation.

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

a) implications for operation of the System:

No implications for operation of the system have been identified by the Transporters. However, EDF suggested that implementation of this proposal would ensure that any imbalance charges are targeted at Shippers causing the imbalance. This, combined with the current incentives to balance positions, would reduce the balancing actions required of the residual system balancer and allow it to operate the system more efficiently and economically.

b) development and capital cost and operating cost implications:

Development and capital cost and operating cost implications have not been quantified.

NG UKD commented that "although removal of each exclusion would remove the need to run a filter to remove these sites, it would result in more sites needing reconciliation calculations and validation. The Transporters agent xoserve has made an initial estimate that each of the three removed exclusions could increase the elapsed time of the calculations by a week. Therefore, if all three exclusions were removed, the reconciliations could take up to an extra three weeks to calculate and issue, due the increased number of individual transactions".

SGN notes that although the Proposals could be implemented by xoserve immediately and would have minimal or no system costs, implementation would have some administration cost implications. SGN believe there may also be an impact on Shippers' systems and processes. In view of this they believe that benefit and materiality should be assessed against potential implementation costs.

TGP believed that implementation would result in a significant increase in the level of AQ revisions that xoserve is required to process. xoserve may be required to increase system capacity which will result in substantial additional costs incurred by the Transporters

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

No cost recovery mechanism is proposed.

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

No consequences on price regulation have been identified.

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 have been identified.

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

TGP believed that there may be changes required to the UK Link system to cope with the increase in AQ revisions mid-year.

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

NG UKD indicated that Registered Users of the affected sites would receive additional reconciliation charges, and a larger number of individual reconciliations, which would all need to be validated. This is likely to represent an increase in administration time and cost for Users.

TGP stated that removing the requirement for a site to be supplied by one User in a gas year before a renomination is triggered would result in substantial additional work undertaken by Shippers in adjusting AQs and resolving discrepancies through ISDs.

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

NG UKD believed that if individual contractual arrangements allow for such, a User may pass the cost on to their customers.

TGP believed Shippers would submit more AQ revisions to xoserve. Any costs incurred by the Shipper in processing additional AQ revisions would be passed through to the Supplier who will incur costs from retrospectively billing the customer for the extra consumption. Suppliers, and ultimately consumers, will therefore incur additional costs.

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

No such consequences have been identified.

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

Advantages

- More accurate allocation of energy and transportation commodity charges following revision of Annual Quantities

Disadvantages

- Increases costs associated with the AQ process

NG UKD identified the following Disadvantages:

- More reconciliation transactions, increased costs to the primary recipients of these charges
- More calculations for Transporters (currently via its agent xoserve) to perform and validate.
- More cost uncertainty for Users and for some end consumers

TGP identified the following Advantages and Disadvantages:
Advantages:

- Marginal improvement in data quality for some sites

Disadvantages:

- Significant increase in the amount of work undertaken by Shippers in monitoring threshold crossers.
- Substantial increase in the number of AQ revisions submitted by Shippers
- Consequent increase in the amount of work undertaken by xoserve in processing changes.
- Shippers adversely impacted by the activities of other Shippers.
- Significant increase in the number of inter-shipper disputes that are processed.

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 nine parties:

Organisation	**Abbreviation**	**Position**
British Gas Trading	BGT	Supports
EDF Energy	EDF	Supports
National Grid Distribution	NG UKD	Qualified Support
RWE npower	RWE	Not in Support
Scottish Power	SP	Comments
Scotia Gas Networks	SGN	Comments
Scottish and Southern Energy	SSE	Supports
Statoil (UK)	STUK	Supports
Total Gas & Power	TGP	Not in Support

BGT said that in "2004 the implementation of modification 0640 resulted in a significant improvement to the accuracy and equitability of the gas settlement processes." However, “there are a number of restrictions on the extent to which xoserve can correct erroneous AQs. These exceptions exist not because they are necessary for the operation of an efficient and effective settlement system, but because at the time the value of unreconciled energy captured in these exception areas was believed to be very small. This has been proven not to be the case, with a total volume of energy equating to some 1,407,037 Mwh, representing some £17m at today’s energy costs."

BGT believe that the implementation of this modification will have a favourable impact upon supply competition. Shippers will have more accurate AQs than is currently the case, and these AQs will be better aligned to the actual consumption of customers, be these recently acquired or otherwise.
NG UKD offered qualified support for implementation on the basis that whilst implementation would result in a greater quantity of reconciliations being processed, they were not convinced that this would be cost effective for the industry. For the 2004/05 reconciliation, 1.4 tWh was excluded which represents approximately 0.4% of the consumption of the whole Smaller Supply Point Sector.

RWE was not able to support implementation, believing that this would introduce a very large increase in operational activity for Transporters and Users alike, as well as potentially exposing Users to costs for which they might not be responsible. RWE believed if implemented it may lead to a significant increase in individual reconciliations of Supply Points that are re-classed as a threshold crosser and also increase costs with little benefits to Users.

RWE added Modification Proposal 0095 seeks to remove the clause at 7.4.3 (b) and would therefore allow the reconciliation of all Larger Supply Points (LSPs) which were previously Smaller Supply Points (SSPs) prior to the AQ revision, regardless of the fact that there has been a change in the Registered User for that Supply Point since that last revision to the AQ.

RWE point out that:

- Unless an actual meter read is obtained at the time of change of User it is not possible to allocate the energy accurately. The process of allocating costs on an arbitrary basis could result in the outgoing Shipper quite reasonably raising an invoice objection on the grounds that the Transporter has no evidence that the end customer actually consumed the gas whilst it was the Shipper.
- In order to accommodate this change then if the incoming shipper obtains a meter read after an estimated opening read I believe that the estimated opening read would need to be amended. However, under the current rules this is not possible. This would result in significant costs to the Transporters.
- In a situation where the new supplier has obtained a meter read and subsequently the AQ has been classed as a threshold crosser, the removal of this clause would mean that that the old shipper would incur costs. It is possible that there could be considerable difficulty for the old supplier to recover any debt after the issuance of a final invoice to its customer.

- It is possible that a series of Shipper / Suppliers might have been appointed between actual meter reads so that it may not be possible to identify when the change in consumption began. Please see the timeline (available on the Joint Office website) which makes this clearer (Appendix A).

SP broadly support the intention of the Modification as it should provide further protection for RbD Shippers against the misallocation of energy volumes between the Smaller and Larger Supply Point market sectors. However, they expressed a number of general concerns regarding the ongoing management of AQ values, the natural movement of Supply Points between the Smaller and Large Supply Point market and the risk of inheriting erroneous AQ values as the result of the Change of Supply process.

SP added "the current Mod 640 exclusion ensures that if there has been a Change in the Registered User since the last revision of the AQ that the new Registered User will not be penalised if the AQ value moves above the AQ Threshold. Where a reconciliation is required, removal of this exclusion will result in reconciliation quantities being applied not only the current Registered User but the previous User in proportion to the period in which they held the registration of that supply. The removal of this exclusion will result in the Incoming Shipper facing the possibility of financial penalties should they inherit erroneous AQ values."

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

No programme of works has been identified as a consequence of implementing the Modification Proposal.

TGP believe xoserve will be required to charge Shippers for sites which previously were excluded from the revision process. In addition, there will be a consequential increase in the volume and number of reconciliation’s undertaken. xoserve will therefore be required to undertake an impact assessment to see the affect this will have on UK Link, which may identify a requirement to increase system capacity.

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

NG UKD suggested that Implementation could be immediate following appropriate direction from the Authority. However the 2006 AQ calculation has already taken place and Users can now do nothing to influence the resulting Reconciliations. It may therefore be more appropriate for this Modification to be implemented with effect from the 2007 AQ review at the earliest, so that Users can act accordingly during Winter 2006/07.

TGP argued that if this modification were to be implemented then the implementation date should coincide with the AQ review date, because an adjustment of the revision criteria midway through a gas year will result in Shippers being penalised for not changing those sites which were previously excluded by paragraph E 7.4.3 (b) UNC (TPD).

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 21 September 2006, of the 8 Voting Members present, capable of casting 10 votes, 6 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel 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

TRANSPORTATION PRINCIPAL DOCUMENT

SECTION E – Daily Quantities, Imbalances and Reconciliation

Delete paragraph 7.4.3 (b)

Renumber paragraph 7.4.3(c) as (b)

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 :

