

Modification proposal:	<b>Uniform Network Code (UNC) 096: "Reconciliation following AQ Amendment, SSP becoming LSP following inter process amendment of AQ"</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 October 2006	Implementation Date:	Not applicable

## Background to the modification proposal

Under the terms of the UNC, Gas Transporters (GTs) have to undertake an Annual Quantity (AQ) review<sup>2</sup>, 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'<sup>3</sup>.

Modification 640<sup>4</sup>, 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 to 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 Adjustment<sup>5</sup> ('revision charge').

<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> UNC Section G1.6.4

<sup>3</sup> Shippers whose portfolio is made up predominantly of SSPs and therefore subject to RbD.

<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)

<sup>5</sup> Defined under UNC Section E7.4.5

## **The modification proposal**

This modification proposal is one of series 094-096<sup>6</sup>, which seek to remove each of the exclusions currently contained within UNC section E7.4.3, as inserted by modification 640.

Modification Proposal 096 seeks to remove the exclusion contained at E7.4.3 (c) and would therefore require 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 an amendment of the AQ may have taken place since the previous annual process.

The proposer considers that by ensuring energy and transportation commodity charges are allocated correctly following the revision of AOs, 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.

## **UNC Panel<sup>7</sup> 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 FMR<sup>8</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>9</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.

Some respondents considered that this modification proposal would further the relevant objectives by ensuring the correct allocation of energy and transportation commodity charges between shippers. One respondent suggested that the exclusion contained within UNC section E7.4.3 c) is not only unnecessary, but provides a loophole by which a shipper could manipulate AOs, providing they make a subsequent amendment.

Another respondent commented that removing this exclusion would remove an incentive for early proactive correction of AOs by the registered shipper. They suggested that if a shipper identifies an understated AO in their portfolio, there will be no financial benefit to correcting it, rather cash flow benefit to leaving the AO unchanged and waiting for end of

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<sup>6</sup> UNC094: "Reconciliation following AO Amendment, SSP becoming LSP with change of <20% or 15,000kwh"; UNC095: "Reconciliation following AO Amendment, SSP becoming LSP following change of Registered User"

<sup>7</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>8</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>9</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)


year Reconciliation. They also suggest that there will likewise be a cash flow disadvantage to RbD shippers, constituting a cross-subsidy of LSPs by the RbD sector.

Modification 640 was approved on the basis that it addressed the potential for energy and transportation commodity charges accrued at certain LSPs (those having crossed the threshold into that category) to be misallocated to RbD shippers. It was felt at that time that a number of exceptions may be appropriate, as detailed above. Nonetheless, despite these exceptions, it was considered that modification 640 would apply to the majority of threshold crossers. We therefore welcome the confirmation by some respondents that modification 640 has resulted in significant improvement to the accuracy and equitability of the gas settlement arrangements.

In 2004/2005 the LSPs excluded from individual reconciliation accounted for around 1.4TWh of consumption<sup>10</sup>, though almost 1TWh of this figure was due to the exclusion relating to Supply Point transfers. The views of respondents were mixed on the cost effectiveness of seeking to reconcile these remaining Supply Points, though some pointed out that removal of this exclusion will simplify rather than complicate industry processes.

We agree with the respondents who suggested that the exclusion contained within UNC section E7.4.3 c) and the ability to avoid the revision charge provides an incentive on shippers to proactively monitor and pursue threshold crosser appeals. In addition to correctly allocating costs to the individual LSP rather than the RbD sector at an earlier stage, we also consider that this should provide administrative efficiencies, encouraging appeals to be made throughout the year, rather than concentrated in the post-Provisional AQ window.

We note that one respondent suggested that removing the clause contained at section E7.4.3 c) would render modification proposal 089<sup>11</sup> obsolete, thereby denying shippers the opportunity to make necessary adjustments to the initial AQ calculations and also provide continuing doubt over the deadline by which they are required to submit AQ revisions, with sub-optimal AQ revisions as a consequence. Modification proposal 089 is now with us for a decision. Whilst we have had regard to that proposal, we have not considered it pertinent to our decision on modification 096. Each modification proposal must be assessed on its own merits and nothing in this letter in any way fetters the discretion of the Authority in respect of modification proposal 089.



**Nick Simpson**

**Director, Industry Codes & Licensing**

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

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<sup>10</sup> Source: RbD sub-group minutes, June 2006.

<sup>11</sup> UNC modification proposal 089: 'Clarification of Timescales to Revise AQ for Small Supply Point threshold-crossers'