

**CODE MODIFICATION PROPOSAL No 0171**  
**“Amendment of “User SP Aggregate Reconciliation Proportion” to incorporate**  
**historical AQ Proportions”**  
**Version 4.0**

**Date:** 20/12/2007  
**Proposed Implementation Date:** First Business Day After Approval by Ofgem  
**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this Proposal**

The current method of calculating a Shipper’s share of an Aggregate NDM Reconciliation charge within an LDZ is based on their proportion of Aggregate LDZ AQ in the month before the invoice is issued. This therefore means that a Shipper will be billed for the proportion of energy that is to be recovered based on the percentage of energy that they are currently liable for within that LDZ, and not on the proportion of energy that they were liable for at the time that the adjustment seeks to correct. This is not an equitable solution, as can clearly be seen in the recent reconciliation issue in the South East LDZ, where shippers picked up a share of a £25.8m reconciliation based on their current AQ holdings within the LDZ, even though some of them had not been active in this LDZ during the whole of the six year period that this invoice spanned.

The current regime acts as a barrier to entry for new Shippers entering the UK market as they may incur costs for a period before they commenced commercial activities. It also inhibits competition as Suppliers could be penalised by offering more attractive terms to gain new customers. Any Shipper taking on new customers will inherit the risk that a large reconciliation invoice may be issued for costs going back to 1<sup>st</sup> Feb 1998 (or the current effective backstop date following the implementation of UNC Modification 152V should any reconciliation take place after April 1, 2008). In extremis it could create pricing issues in a Supplier of Last Resort situation.

Under the current regime the energy charges and transportation charges are calculated on a daily basis for the period that it is being reconciled, and it is proposed that the Shipper’s share of charges for this period are also calculated based on their historical AQ holdings at the time the error took place on a monthly basis. This will ensure that any costs/credits are targeted at those Shippers who have actually accrued them rather than the ones that are active in the market at the time the reconciliation invoice is issued.

It is recognised that due to changes in the Shipping community there may be instances when not all the costs can be recovered, for instance due to a Shipper becoming insolvent. It is additionally proposed that under these circumstances those monies that cannot be recovered should be smeared across the industry based on Shippers’ proportion of AQ holdings within

that LDZ on the dates that the costs were incurred. In the case of a User being merged with or acquired by another User, the existing post-merger User or the User that carried out the acquisition will be liable in relation to the former User.

It should be noted that this proposal is intended to apply to both credit and debits.

Failure to implement this proposal will mean that Shippers will continue to pick up their share of any reconciliation based on their AQ holdings at the time that the invoice is issued, creating a barrier to entry for any new Shippers and those that wish to gain market share. Furthermore failure to implement this proposal will continue to ensure that there is no correlation between the energy delivered during the reconciliation period and the proportion of the reconciliation invoice that shippers are exposed to, and therefore transportation charges will not be cost reflective.

For the purposes of clarity it should be noted that this process should only be applied in cases where the reconciliation amount is a minimum of 50 GWhs. This is aimed specifically at adjustments to NTS/LDZ offtakes, which, we have been informed, Xoserve can manage via an off line solution.

- b) **Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**
  
- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

This topic was discussed within the Distribution Workstream at the June and August 2007 meetings. It is requested that this Modification Proposal now goes to consultation.

## **2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

Standard Special Condition A11.1 (a) the efficient and economic operation of the pipeline system to which this licence relates, by ensuring that costs are targeted at those who incur them.

Standard Special Condition A11.1 (d) the securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers, by removing a potential barrier to entry to any new Shippers entering the UK, and those entering new areas outside of their traditional core business.

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

RWE npower believes that there are no security of supply issues, however implementation of this proposal will facilitate the efficient and economic operation of the pipeline system as costs will be targeted at Shippers based upon their market share at the time that they were incurred.

**4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

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

None Identified.

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

xoserve have indicated at the August Workstream that an offline process should be able to handle such events and as such will not incur any significant costs.

**c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

RWE npower does not believe the costs associated with this modification to be significant enough to warrant special recovery mechanisms.

**d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

None Identified.

**5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

None Identified.

**6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

xoserve have indicated at the August Workstream that an offline process should be able to handle such events and as such will not incur any significant costs.

**7 The implications for Users of implementing the Modification Proposal, including:**

**a) The administrative and operational implications (including impact upon manual processes and procedures)**

RWE npower believes that implementation of this Modification Proposal will not have any significant impact on Users’ level of contractual risk.

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

**None identified**

**c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

**None identified**

**8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

**None identified**

**9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

**None identified**

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

**Advantages**

- Costs are more accurately apportioned to those who incur them, in line with the “polluter pays” principle.
- Removes barrier to entry for new Shippers/Suppliers entering the UK market.
- Will protect those Suppliers who are seeking to gain market share through offering more attractive prices from incurring costs not associated with previous activity.

**Disadvantages**

- Some parties felt that any unallocated portion should remain unallocated and not be an additional cost on the Shippers, the Proposer of this mod does not share this view as it would undermine the integrity of the RbD system.

- xoserve have indicated that whilst there could be some costs involved in developing an offline system however these are expected to be small.

**11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

No such representations have yet been received.

**12 Detail of all other representations received and considered by the Proposer**

We have taken into account the presentation made by xoserve at the August 2007 Distribution Workstream.

**13 Any other matter the Proposer considers needs to be addressed**

**14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal**

01 January 2008

**15 Comments on Suggested Text**

**16 Suggested Text**

None provided

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** E: Paragraph 7.2.2 (f)

**Proposer's Representative**

Simon Howe (RWE npower)

**Proposer**

Chris Harris (RWE npower)