

Network Code Modification Proposal 0396
Report to Modification Panel
Version 1.0

1. The Original Proposal

The original proposal was as follows:

The relevant paragraphs of the current Section N should be amended in consultation with the Planning and Security and RbD Workstreams to remove any doubt as to whether more than one reconciliation of LDZ Shrinkage for a single Gas Year after the event is permitted. The current rules are designed to allow for RbD adjustments to be processed to correct from the estimated LDZ Shrinkage Factors set prior to the Gas Year to those assessed after the year has been completed. They have also been used to process other corrections, but not for earlier periods. The intention is that the retrospective adjustment required for this Modification should be passed through the RbD adjustment mechanism based on appropriate market shares during the 20 month period covered in line with proposals for such one-off adjustments embodied in Modification 0327.

It is currently planned to implement the new domestic temperature data in a number of phases as improved figures become progressively available, thereby necessitating potentially a number of retrospective adjustments. The target is to agree the initial domestic temperatures to be used based on both the 1999 DMTS and the 2000 DMTS by 1st July 2000. Prospective application will then be deferred until the start of the new Gas Year on 1st October 2000, as any adjustments for the 1999/2000 Gas Year can be included in the normal annual reconciliation process early next year. This Modification should facilitate the retrospective adjustment linked to these initial temperatures.

The second phase, which may trigger further adjustments, is currently planned to relate to a review of the assumed internal/external split of domestic meters, and will be based on work to be undertaken for Transco by the Meter Reading Agencies. Further adjustments may then be required when the results of the 2001 DMTS, which will be based on an expanded sample of domestic meters, become available and possibly again in the future as further data improvements are defined. At an appropriate time a line will be drawn on retrospective adjustments related to this matter.

2. Workgroup Activity

The Modification Panel requested that the Invoicing and Adjustment Workstream develop a billing methodology to support the proposal, and to report this back to the Panel. The RbD Sub-Group of this Workstream, at its meeting on 5 May 2000, discussed the issues and asked Transco to prepare a suggested billing and assessment methodology for a meeting of a Workgroup which Transco arranged for 24 May 2000. Prior to this Workgroup session all Workstream attendees were invited to submit representations and one was received from TXU. The meeting on 24 May 2000 discussed:

- Billing Methodology
- Assessment Methodology
- Representation received from TXU

2.1 Billing Methodology

Transco tabled the Billing Methodology, which is attached to this report as Appendix 1. The Workgroup agreed that separate billing adjustments should be made for each Gas Year and the period from 1 February 1998 (the first day of RbD) to 30 September 1998. Transco clarified that this methodology would ensure that month by month changes in shippers' portfolios would be tracked, but the same revised LDZ shrinkage factors would apply to each month of the Gas Year concerned. Transco stated that this underlying methodology of RbD adjustments had been audited for conformance with the Network Code. The Workgroup therefore accepted Transco's proposed Billing Methodology.

2.2 Assessment Methodology

Transco also presented its proposed assessment methodology. This showed how the results of Domestic Temperature and other surveys planned or already conducted by Transco, up to and including the 2001 Domestic Temperature Survey (DMTS) could be embodied in the adjustment processes.

As part of the presentation Transco outlined the manner by which LDZ shrinkage factors calculated on the basis of Initial Data (I&C) could be refined on the basis of:

- The 1999, 2000 and 2001 DMTS
- The planned internal/external meter location survey

Arising from this, the main issues discussed within the Workgroup were as follows:

- Robustness of Transco's gas temperature data
- Need for one or several billing adjustment cycles
- Adjustment orders of magnitude (in terms of energy) for each LDZ
- Need for "close-out" so that adjustments retrospective from the first day of RbD are not carried out indefinitely

(i) Robustness of Transco's gas temperature data

The LDZ Shrinkage Forum had been engaged in agreeing the philosophy for obtaining and processing representative temperature data. The 2001 DMTS plus the survey of external vs internal meter locations was intended to give a high level of confidence in the data obtained and its applicability to the entire Domestic Supply Point population. Some shippers, however,

continued to be concerned about lack of representation of the 2000/01 data set. This could potentially be resolved as data sets from successive years are reviewed for convergence. It was therefore agreed that the LDZ Shrinkage Forum was the appropriate body to continue to review survey activity and to discuss any concerns that shippers may have on robustness of data and sampling plans.

(ii) Need for one or several billing adjustment cycles

The Workgroup agreed that there was a need to balance the shippers' administrative load of carrying out more than one adjustment against the requirements of maintaining consequent cash flows to shippers, which would indicate adjustment at the earliest possible stage. The solution agreed, therefore, was to consider billing adjustments as soon as the data has been processed from each survey, which is potentially three separate adjustments. The Workgroup felt, however, that where Transco believed that any of these adjustments were minor it should consult with the LDZ Shrinkage Forum with a view to incorporating the adjustment concerned with the one that follows. This would essentially maintain shippers' rights of consultation.

(iii) Adjustment orders of magnitude

Transco had not carried out shipper by shipper adjustment calculations but, based upon the first DMTS results, tabled adjustment estimates on an LDZ basis from which shippers could estimate their likely adjustments. One of the shippers had previously calculated similar values, which showed adjustments on a whole LDZ basis varying from -0.4 TWh to 0.6 TWh. The Workgroup concluded that the proposed billing and adjustment cycle methodologies were appropriate for the scale of adjustments likely to be involved.

(iv) Need for close-out

Whilst all the members of the Workgroup recognised that at some stage it would be necessary to close-out the first Gas Years of RbD, there was a reluctance to decide at this point when that stage would be reached. It was agreed that a decision on close-out should be taken after discussion by the LDZ Shrinkage Forum and that this should form part of Transco's ongoing consultation process. The parties concerned would in these circumstances also take comfort in Ofgem's ability to veto proposals within the domestic arena.

2.3 Shipper's Representation

The Workgroup concluded that in discussing the above issues that it had adequately addressed the representations made prior to that meeting, particularly by TXU.

3. Conclusions of Workgroup Process

The Workgroup believes that it has now reached the stage where Modification Proposal 0396 can proceed to consultation. In essence it has agreed that:

- The Billing Methodology should be in accordance with that detailed in Appendix 1 of this document.
- Retrospective adjustments should take place as the data from each survey is processed. This would include each of the three surveys up to and including the 2001 DMTS.
- Transco should, through the LDZ Shrinkage Forum, consult shippers on close-out of the initial Gas Years of RbD.

Appendix 1 - Annual LDZ Shrinkage Adjustment

Apportionment to RbD Shippers of Domestic Temperature Adjustment pursuant to Modification Proposal 0396

1. Introduction

- 1.1 Modification Proposal 0396 proposes that the Network Code be amended to allow restatement of amounts processed through Reconciliation by Difference (“**RbD**”) for LDZ Shrinkage in the light of the results of Domestic Temperature Surveys.

2. Existing Network Code Obligations

- 2.1 Section E7.6 requires Transco to carry out a reconciliation between Transco and the Shrinkage provider (“**LDZ Reconciliation**”) in respect of:
- LDZ input measurement, section E7.6.1(a); and,
 - Annual adjustment to LDZ Shrinkage - Section E7.6.1(b)
- 2.2 Section E7.2.2(f) defines the aggregate reconciliation period (the “**apportionment period**”) as:
- 1 Month for LDZ Input measurement; and
 - the Gas Year for LDZ Shrinkage Adjustment.
- 2.3 Section N3.4.1, as amended by Part II Section 8.11.3 of the Transition Document, defines the LDZ Shrinkage Adjustment period for the gas year 1997/98 as the period from Reconciliation by Difference Date (1 February 1998) to 30 September 1998.

3. Calculation of Adjustment Amounts

- 3.1 The additional amounts to be processed through RbD for each LDZ would be calculated in accordance with a methodology proposed by Transco and considered by the appropriate representatives of the LDZ Shrinkage Forum in respect of Domestic Temperature Correction.
- 3.2 The amounts will be for each Gas Year as above.

4. RbD Apportionment Methodology

- 4.1 The additional amounts for each LDZ in each Gas Year will be apportioned to the RbD Community according to their market share in the relevant LDZ for the respective Gas Year.

- 4.2 The apportionment process for each Gas Year and LDZ will follow the existing RbD methodology, which will be applied to the initial Annual LDZ Shrinkage Adjustment, namely:
- a) the amount will be apportioned into equal amounts for each month in the apportionment period (“**the monthly amount**”)
 - b) for each month in the apportionment period, the monthly amounts will be multiplied by the Shipper’s AQ for each month and divided by the LDZ Aggregate AQ for the month, to give the apportioned value.
 - c) the Shipper AQ and LDZ Aggregate AQ will be those already used to calculate RbD based charges.

5. Invoicing & Supporting Information

- 5.1 The total for each Shipper of the apportioned values determined in 4 above would be billed in total via Transco’s ad-hoc invoicing system, using ad-hoc invoice type ADB and charge types 920 and 922 for UARTCA and UARCV respectively.
- 5.2 Shippers would receive a detailed breakdown of their charge showing for each LDZ:
- a) the Apportionment Month Aggregate Adjustment Values, after application of the equal and opposite rule, for ARTCA, ARCV, and ARQ.
 - b) their own cumulative Monthly Daily Aggregate AQ and the LDZ Total AQ for each of the calendar months corresponding to the Apportionment Months for which they are receiving an apportionment.
 - c) the amount apportioned specifically to them for each Apportionment Month for each LDZ for UARTCA, UARCV and UARQ.

Where:

ARTCA	=	Aggregate Reconciliation Transportation Charge Adjustment
ARCV	=	Aggregate Reconciliation Clearing Value
ARQ	=	Aggregate Reconciliation Quantity
UARTCA	=	User Aggregate Reconciliation Transportation Charge Adjustment
UARCV	=	User Aggregate Reconciliation Clearing Value
UARQ	=	User Aggregate Reconciliation Quantity.