

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0640**  
"End of Year Reconciliation of Specific Categories of Smaller Supply Points"  
Version 1.0

**Date:** 11/07/2003

**Proposed Implementation Date:** 01/10/2003

**Urgency:** Non-Urgent

**Justification**

Under the current Reconciliation by Difference ('RbD') mechanism for invoicing Smaller Supply Points ('SSPs'), the RbD community can be adversely affected by the mis-statement of a User's total SSP portfolio Annual Quantity ('AQ'). Evidence suggests that this mainly arises as an understatement of portfolio through the provision of low AQ values and the inappropriate use of a SSP AQ where the site is consuming at Larger Supply Point ('LSP') levels (commonly termed 'threshold crossers').

During the previous three AQ reviews Transco has provided information to Users and Ofgem on the outcome and the potential impact of a biased reduction of AQ values. Analysis appears to demonstrate that some Users have taken the reviews as 'opportunity' to reduce costs by reducing in aggregate their SSP AQ and realising an unfair commercial advantage. This has raised User concerns and led to modification (Modification Proposal 0624) of the Network Code to lessen the likelihood of inappropriate behaviour.

Whilst work has been undertaken to improve control over the AQ amendment and review processes, it is possible that erroneous data may be used by Users for incorrect AQ amendments or appeals which has in turn provided that the AQ has not been reflective of actual offtake. Transco, therefore, believes that there should be a mechanism to address such AQ related anomalies to ensure appropriateness of transportation billing. There are mechanisms for retrospective adjustment which have been developed within RbD billing, but these can only presently be used for errors of portfolio completeness or existence, rather than mis-statement of AQ.

Transco therefore believes that it is appropriate that a mechanism be included within the Network Code to rectify potentially adverse effects associated with AQ amendment or review which impact Users having Smaller Supply Points. The mechanism would enable aggregate commodity & energy corrected positions to be billed (or refunded) to the User and then applied through RbD to correctly restate each portfolio's gas year consumption. The procedure would apply to exceptional errors and mis-statements as defined in the Proposal, but not for normal year on year AQ fluctuations. Transco's proposal has been developed within the Supply Point & Billing Workstream, RbD sub-group and Billing Operations Forum.

## **Nature of Proposal**

### **Events within scope.**

1. Where the AQ of a SSP increases or reduces through the amendment or appeal process identified by comparison with the subsequent year's proposed AQ, where the amendment change the AQ by more than 20% and more than 1,000 kWh.
2. Where the next year's proposed AQ is greater than or equal to 95% of the original proposal or the next year's proposed AQ is less than or equal to 105% of the original proposal.
3. Where a Smaller Supply Point becomes a Larger Supply Point at an AQ review, and the AQ increases by more than 15,000 kWh and 20%.

Where a Supply Point falls within both events, Scenario 3 would apply.

### **Events outside scope.**

- Supply Points which transfer to another User during the year are excluded because any benefit or disadvantage is shared between the incoming and outgoing User. There is therefore no need to make any further correction/redistribution.
- Supply Points meeting the above criteria which transfer to another User during the year
- Normal annual fluctuations in AQs within the Smaller Supply Point category
- Normal annual fluctuations in AQs resulting in the Supply Point becoming a Larger Supply Point, but the AQ increasing by less than 15,000 kWh or 20%.

### ***Scenario 1: Inappropriate reduction of AQ – “Reconciliation” Methodology.***

Where a Supply Point AQ is appealed or amended downwards by more than 20% and 1,000 kWh in Year 1, the resulting AQ would be validated by comparison with the proposed AQ calculated by Transco the following year.

If the next year's proposed AQ is greater than or equal to 95% of the original proposal, that is the appeal/ amendment is deemed to have been incorrect, the User would be reconciled to the original proposed AQ for the affected period. Note that if the AQ was appealed after the start of the Gas Year, rather than amended before the start of it, the reconciliation period will be reduced to equal the effective period of the appealed AQ.

A: Proposed Year 1 AQ

B: Amended Year 1 AQ; or

C: Appealed Year 1 AQ

D: Proposed Year 2 AQ

Test 1: Eligibility for check in subsequent year. Is A-B (or A-C) more than 20% of A and greater than 1,000 kWh?

Test 2: Applicability of the methodology: Is D 95% of A or more?

The User would be charged for the difference in allocation between A and B (or A and C in the case of an appealed AQ) for the relevant EUC for the relevant period. Transportation commodity charges would be at the applicable Smaller Supply Point Rates and the associated energy costs would be at System Average Price. The charges will be issued as TRE (transportation) and GRE (energy).

No amendment would be made to capacity charges for the relevant year.

**Timing:** the calculation will be performed and invoices issued after the end of the relevant Gas Year.

**RbD Treatment:** the opposite impact of the transportation commodity and associated energy costs will be processed through RbD on the next available reconciliation invoice, based on the duration of the error.

No amendment will be made to RbD Market Shares for the change in AQ.

***Scenario 2: Inappropriate increase of AQ – “Reconciliation” Methodology***

Where a Supply Point AQ is appealed or amended upwards by more than 20% and 1,000 kWh in Year 1, the resulting AQ will be validated by comparison with the proposed AQ calculated by Transco the following year.

If the next year’s proposed AQ is less than or equal to 105% of the original proposal, the appeal/ amendment is deemed to have been incorrect, the Shipper will be reconciled to the original proposed AQ for the affected period. Note that if the AQ was appealed after the start of the Gas Year, rather than amended before the start of it, the reconciliation period will be reduced to equal the effective period of the appealed AQ.

A: Proposed Year 1 AQ

B: Amended Year 1 AQ; or

C: Appealed Year 1 AQ

D: Proposed Year 2 AQ

Test 1: Eligibility for check in subsequent year. Is B-A (or C-A) more than 20% of A and greater than 1,000 kWh?

Test 2: Applicability of the methodology: Is D 105% of A or less?

The Shipper will be refunded for the difference in allocation between A and B (or A and C in the case of an appealed AQ) for the relevant EUC for the relevant period. Transportation commodity refunds will be at the applicable Smaller Supply Point Rates and the associated energy costs will be at System Average Price. The refunds will be issued as TRE (transportation) and GRE (energy).

No amendment will be made to capacity charges for the relevant year.

**Timing:** the calculation will be performed and invoices issued after the end of the relevant Gas Year.

**RbD Treatment:** the opposite impact of the transportation commodity and associated energy costs will be processed through RbD on the next available reconciliation invoice, based on the duration of the error.

No amendment will be made to RbD Market Shares for the change in AQ.

***Scenario 3: Upward Threshold Crossers – “Reconciliation” Methodology.***

Where a Smaller Supply Point becomes a Larger Supply Point as a result of the AQ Review in Year 2, the Year 2 AQ would be used to reconcile the Supply Point for Year 1.

Note that if the AQ increases to a value greater than the LSP threshold by an appeal before Transco performs the AQ calculation for the following year, no reconciliation would be made. If the AQ is moved above the LSP threshold by an appeal after that date, the reconciliation period would be reduced to equal the effective period of the original Year 1 AQ.

A: Year 1 AQ

B: Year 2 AQ

C: Appealed above LSP threshold - before Year 2 AQ calculation - no reconciliation

D: Appealed above LSP threshold - after Year 2 AQ calculation - reconcile to Date D only

Test 1: Is A below 73,200 kWh and B above 73,200 kWh?

Test 2: Is B-A more than 15,000 kWh?

Test 3: Is B more than 120% of A?

The User would be charged for the difference in allocation between A and B for the relevant End User Category (EUC) for Year 1 (or to live date of new AQ if appealed after the calculation of Year 2 AQs). Transportation commodity charges would be at the applicable Smaller Supply Point Rates and the associated energy costs will be at System Average Price. The charges would be issued as TRE (transportation) and GRE (energy).

No amendment will be made to capacity charges for the relevant year.

**Timing:** the calculation would be performed and invoices issued after the end of the relevant Gas Year.

**RbD Treatment:** the opposite impact of the transportation commodity and associated energy costs will be processed through RbD on the next available reconciliation invoice, based on the duration of the error, namely in the Domestic Portfolio Adjustment (Annual) sector.

No amendment would be made to RbD Market Shares for the change in AQ.

### **Purpose of Proposal**

The measures identified within this Modification Proposal minimise risk to RbD Users by ensuring the accuracy and robustness of a key feeder process. The proposed mechanisms are consistent with Transco's Licence objective to secure effective competition between relevant shippers and between relevant suppliers.

### **Consequence of not making this change**

Unless the correction mechanisms identified within this Modification Proposal are implemented the opportunity for commercial gain as a consequence of inappropriate User behaviour may remain. This would be to the potential detriment of Registered Users of Smaller Supply Points.

### **Area of Network Code Concerned**

Principal Document Section E.

### **Proposer's Representative**

Christopher J Warner (Transco)

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### **Signature**

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