

OFGEM DECISION LETTER No. 0484

"Reconciliation of Energy for Meter Points moved to the Larger Supply Point category via Annual AQ Review Process"
Version 1.0

Direct Dial: 0207-901-7491
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Transco, Shippers and Other Interested Parties

Your Ref:
Our Ref: Net/Cod/Mod/484

Modification Proposal 0484: Reconciliation of Energy for Meter Points moved to a Larger Supply Point Category via Annual AQ Review Process

Ofgem has considered the issues raised in Modification Proposal 0484 'Reconciliation of Energy for Meter Points moved to a Larger Supply Point Category via Annual AQ Review Process'. Ofgem has decided not to direct Transco to implement the modification because we do not believe that this proposal will better facilitate the achievement of Transco's relevant objectives.

In this letter we explain the background to the modification and give reasons for making our decision.

Background to the proposal

Transco's annual AQ review process is designed to allocate unmetered energy amongst gas shippers to the proportion of their portfolio for unmetered energy under the RbD process. Results of the 2000 Annual AQ Review process which included Small Supply Points (SSPs) showed that a significant amount of energy which had been deemed to SSPs and paid for under the RbD process should have been attributed to Larger Supply Points (LSPs). A consequence of this error is that whilst configured in a Small Supply Point, the meters will not be reconciled but any actual consumption beyond that figure deemed (based upon current AQ) will be allocated across RbD shippers in proportion to their aggregate AQ in each LDZ.

The modification proposal

It is proposed that any Supply meter point which is configured within a SSP but which becomes a LSP is subject to reconciliation following completion of the annual AQ review process, including Appeals. The relevant date for the transfer from a Small to a Large supply point would be taken as being the date of the opening read used in the AQ review process. Reconciliation would then be applied from this relevant date, rather than from 1st October. The equal and opposite effect of these reconciled quantities will flow back via the RbD process and reduce the exposure to the quantities of gas consumed over and above that deemed.

The modification proposal contains both a retrospective and prospective element.

Respondents' views

Ofgem received four representations in relation to this modification proposal. One respondent supports the proposal fully, on the basis that the amount and cost of energy misallocated to RbD shippers is significant. One respondent supports the modification in principle but does not feel that the modification should proceed in its present form. This respondent goes on to suggest that the AQ Strategy Group could look at how the review could be better managed to assist in the early identification of threshold crossers. Two respondents do not support the proposal and agree with Transco on a number of points. These respondents feel that the proposal if accepted will increase cost uncertainty within the industry. Three respondents agree with Transco that the proposal attempts to change the commercial regime under which charges for transportation were calculated.

One respondent agrees with Transco that implementing the proposal will lead to the industry incurring system development costs whilst one respondent feels that this should not be the case and that the proposal could be implemented and charges adjusted in accordance with the current adjustment mechanism.

All respondents agree that the level of energy moving from the SSP to LSP category via the Annual AQ review process indicates that the accuracy of AQ data is improving as fewer sites are moved from the SSP to the LSP category with subsequent AQ reviews.

Transco's Views

Transco's view is that the proposal seeks to retrospectively change the commercial regime. It also feels that the proposal lacks general support, as several issues raised by the proposal remain unresolved. Transco also feel that the proposal does not assist in the fulfilment of its network code relevant objectives. Transco states that the cost of implementing the proposal is likely to be high as it might have to carry out readjustments off-line and manually calculate it irrespective of the method of readjustment adopted.

Ofgem's view

Ofgem is sympathetic to any proposal that will result in industry parties paying the true cost of any service consumed. However Ofgem has several concerns in relation to this proposal.

Ofgem views the proposal as retrospective in that it intends to review charges agreed and paid based on prevailing rules that were agreed by the industry. The proposal seeks to recover charges paid, potentially going back to 1st February 1998. Approval of this proposal might lead to further retrospective proposals. Such action is likely to reduce industry commitment to abide by current rules, as it might lead to the suggestion that it was possible to amend them in the future.

All respondents, except one, indicate that although several methods for adjustment have been discussed, the industry has not been able to agree the most cost-effective method for readjusting charges if the proposal were to be implemented. The proposal also does not provide details of any mechanism that has been agreed by the industry for adjusting the charges. There are conflicting views from respondents as to the systems required for and the cost of carrying out readjustment.

Ofgem however recognise Transco's licence obligation to make accurate charges for the provision of its services. As a result, Ofgem sympathises with the intent of the proposal, which is to ensure that Transco bills accurately, and that the domestic

market is not cross subsidising industrial and commercial customers. Ofgem is aware that Transco does not support the implementation of this modification but they have not proposed any alternative to assist the industry in resolving concerns surrounding the issue of accurate billing as detailed in this proposal. Ofgem maintain the view that it is for Transco to ensure that there is confidence in its settlement system.

Looking ahead, there is a suggestion that AQ data which forms the basis of the RbD mechanism is improving and that the number of threshold crosses is on a downward trend. Ofgem also welcomes the work to introduce a better management mechanism for AQ reviews. Hence it remains uncertain whether such a mechanism for readjustment is necessary going forward.

Ofgem's Decision

We do not believe that this modification proposal in its present form will assist Transco in better fulfilling its relevant objective. The proposal attempts to introduce unanticipated changes to the RbD regime, which would mean that amendment to the code would be retrospective. The proposal does not make any provision for ensuring accurate charges in the future, and although changes have been made to the Annual AQ review regime which might mean that threshold-crossers are identified more quickly, some sites may still suffer from inaccurate billing.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Nick Simpson
Director, Industry Code Development