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29 August 2006

Your Reference 0094 / 0095 / 0096

Re: Modification Proposals:

0094 Reconciliation following AQ Amendment, SSP becoming LSP with change of <20% or 15,000kWh

0095 Reconciliation following AQ Amendment, SSP becoming LSP following change of Registered User

0096 Reconciliation following AQ Amendment, SSP becoming LSP following inter process amendment of AQ

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposals. National Grid offers its qualified support for implementation of all three proposals on the basis that whilst implementation would result in a greater quantity of reconciliations being processed, we are not convinced that this would be cost effective for the industry.

National Grid recognises the impact on Users in the Smaller Supply Point sector of those Supply Points that should be subject to individual meter point reconciliation and recognising these impacts National Grid's predecessor Transco raised Network Code Modification Proposal 0640 in July 2003.

The subsequent implementation of Modification 0640 introduced a 'once a year' reconciliation exercise whereby following the AQ Review of consumption of individual Supply Points over the previous twelve months, consideration is given with respect to those Supply Points which have been re-designated 'Larger Supply Points' (having previously been classified 'Smaller Supply Points').

Assessment is made as to whether, in the previous year, the Supply Point may have in fact consumed sufficient quantities to have warranted earlier re-classification as a 'Larger Supply Point'. Subject to certain criteria it was the industry's view that a reconciliation should be carried out to correct the anomaly.

During development of Modification 0640, a number of conditions were identified in which it was deemed to be inappropriate to undertake the annual reconciliation, nevertheless National Grid acknowledges that the fundamental principle should be for the correct allocation of Transportation and Energy charges based on accurate Annual Quantities. From this perspective National Grid

supports the fullest application of the annual reconciliation introduced by Modification 0640 but notes that the existing exclusions exclude circa 23% of the quantity of Supply Points and yet only 3% of the energy is removed from the reconciliation.

In assessing whether it is economic and equitable to remove the exclusions and recover the final 3% of the energy, it is relevant to review the rationale for inclusion of the original exclusions which are the subject of these three UNC Modification Proposals.

1. Change of less than 20% and 15,000kWh (Proposal 0094)

RbD was set up as an alternative to Meter Point Reconciliation, with the understanding that year-on-year fluctuations in AQ within the SSP band and across the threshold would even themselves out. Mod 640 addressed cross-subsidies caused by significant fluctuations. A disadvantage of removal of this exclusion would be to arguably prevent RbD from operating as originally intended.

2. Change of Registered User during the year (Proposal 0095)

It was felt that a User would be deterred from taking on a consumer with an understated AQ, for fear of picking up a large charge during End of Year Reconciliation. The User might refuse the sign-up the consumer until the AQ has increased above the threshold, by either appeal or annual AQ review. This is arguably a barrier to competition for the affected sites.

3. Inter process amendment of AQ (Proposal 0096)

This exclusion was intended to encourage pro-active management of AQs during the year, so that understated AQs could be appealed in the early part of the year and avoid an End of Year Reconciliation. A disadvantage of removal of this exclusion would be that there will be no incentive for early, pro-active correction. If a User identifies an understated AQ in their portfolio, there will be no financial benefit to correcting it, rather a cash flow benefit to leaving the AQ unchanged and waiting for End of Year Reconciliation, particularly if the change is relatively small and there is little benefit to be gained from applying Larger Supply Point transportation rates. Likewise there will be a cash flow disadvantage to RbD Users, because instead of a timely correction, no action will be taken until the next AQ review, and financial cross-subsidies will not be addressed until the following Spring.

Comments on Draft Modification Reports

1. The Modification Proposal

Though the proposer suggests that the exclusions were introduced “in order to simplify the amendment”, National Grid’s view is that the exclusions were included to ensure that the reconciliation was equitable and practical. In respect of the materiality of the exclusions, whether this is ‘significant’ is a subjective question to be assessed by review of the available data which demonstrates that for the 2004/05 reconciliation, 1.4 tWh was excluded which represents approximately 0.4% of the consumption of the whole Smaller Supply Point Sector.

4b. development and capital cost and operating cost implications

Although removal of each exclusion would remove the need to run a filter to remove these sites, it would result in more sites needing reconciliation calculations and validation. The Transporters agent xoserve has made an initial estimate that each of the three removed exclusions could increase the elapsed time of the calculations by a week. Therefore, if all three exclusions were removed, the reconciliations could take up to an extra three weeks to calculate and issue, due the increased number of individual transactions.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Registered Users of the affected sites would receive additional reconciliation charges, and a larger number of individual reconciliations, which would all need to be validated. This is likely to represent an increase in administration time and cost for Users.

8. The implications of implementing the Modification Proposal for ...Consumers

If individual contractual arrangements allow for such, a User may pass the cost on to their customers.

10. Disadvantages

- More reconciliation transactions, increased costs to the primary recipients of these charges
- More calculations for Transporters (currently via its agent xoserve) to perform and validate.
- More cost uncertainty for Users and for some end consumers

15. Proposed implementation timetable

Implementation could be immediate following the appropriate direction from the Authority though National Grid would highlight that the 2006 AQ calculation has already taken place and Users can now do nothing to influence the resulting Reconciliations. Had this Modification been in force during the Winter 2004/05, Users might have behaved differently in managed their AQ portfolio, to minimise their charges. It may therefore be more appropriate for this Modification to be implemented with effect from the 2007 AQ review at the earliest, so that Users can act accordingly during Winter 2006/07.

If you require any further information in respect of this representation please contact Chris Warner on 07778 150668 or email chris.warner@uk.ngrid.com.

Yours sincerely

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