

CODE MODIFICATION PROPOSAL No 0115A
Correct Apportionment of NDM Error
Version 1.0

Date: 19/04/2007

Proposed Implementation Date: 2007

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

This modification proposal has been raised as an alternative to UNC modification proposal 0115 and is therefore requested to follow the same consultation timetable.

Nature and Purpose of Proposal (including consequence of non implementation)

UNC Modification Proposal 0115 "Correct apportionment of NDM error" raised by British Gas Trading (BGT), proposes to apportion the costs of unreconciled energy, currently borne by Small Supply Points only, across all Non Daily Metered (NDM) Supply Points. The proposal by BGT is based on the assumption that all NDM market sectors should receive equal treatment with regard to unreconciled energy. Gaz de France ESS does not believe this to be an appropriate, proportionate or cost reflective solution.

Gaz de France ESS, as an alternative, proposes that unreconciled energy be apportioned only to the supply points where the unreconciled energy is likely to have arisen. Specifically, this proposal seeks to extend the apportionment of unreconciled energy to all non-monthly read meters in the NDM sector. For the avoidance of doubt, Daily Metered Supply Points and Monthly Read Meters as determined in UNC TPD Section M 3.1.7b are excluded from the scope of this proposal.

b) Transportation Pricing for unreconciled energy

This modification proposal differs to the original proposal in that it seeks to apply a banded transportation charge which mirrors the normal prices set for transportation charges in a particular sector.

Market Sector	Normal Transportation Price (by LDZ)	Unreconciled Energy Transportation Price (by LDZ)
Small Supply Points <73,200kWh	Price (a)	Price (a)
Larger Supply Points (non-monthly) 73,200kWh to 293,000kWh	Price (b)	Price (b)

Under the original proposal raised by British Gas Trading all supply points would pay a single price (price (a) in the above example) for the transportation charge element associated with unreconciled energy. Larger Supply Points (LSP) would thus face a disproportionately high transportation charge (up to 3.5 times) relative to normal charging arrangements.

This alternative modification proposal better aligns with Transporter's Charging Methodology Objectives and removes an element of contractual risk between suppliers and customers in the Industrial and Commercial market. Transportation charges associated with unreconciled energy will be the same as the prevailing transportation charges for non-monthly read Large Supply Points.

Evidence supporting this proposal

The key components which comprise unreconciled energy which have been cited within the original proposal are unregistered sites, shipperless sites, undiscovered theft, AQ errors and deeming errors. Many of these are transient in nature and in the view of Gaz de France ESS inappropriate to apply to Monthly Read Meters. Our evidence to support this is proposal detailed below.

Theft of Gas

Table 1 below (source: Xoserve) shows reported theft of gas figures for the Large Supply Point (LSP) and Small Supply Point (SSP) markets in 2006. If these figures are to be used as a proxy for unreported theft of gas, this data illustrates that an insignificant amount of energy is taken from the LSP sector (1% by number of thefts, 8% by volume). Moreover there is an established process for reclaiming energy for theft of gas within the Industrial and Commercial sector (Theft of Gas Code of Practice) and so there are no perverse incentives that exist in this sector. In the SSP sector however, theft of gas is smeared across all RbD participants therefore the incentive to detect theft of gas is lessened, if not completely removed.

The pre-sales process and billing process inherent within the Industrial and Commercial community generally and monthly read market in particular; compares actual usage against predicted sales profiles and previous usage makes any theft of gas easily detectable and immediately apparent. Furthermore, the ethical behaviour demonstrated by business customers generally makes theft of gas in this sector unlikely and the economic consequences for both shipper and culprit are high.

Although not part of this proposal, should theft of gas be found to be an escalating problem, it may be appropriate to initiate a separate incentive scheme developed for theft of gas which relates to all suppliers. Actual detected theft could be matched against a target, based on a supplier's portfolio and appropriate credits/debits issued subsequently to incentivise market participants on a self governance basis.

Table 1 (Source: Xoserve)

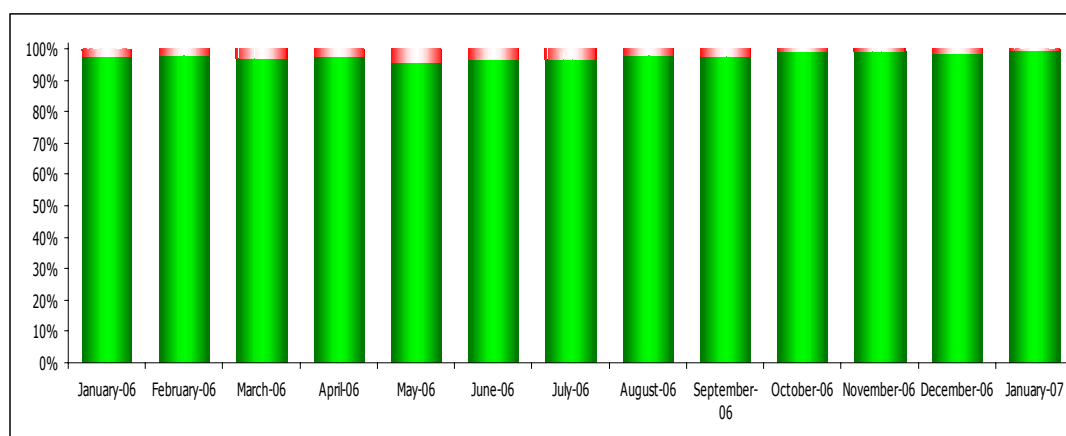
**Theft Of Gas Figures for I&C and Domestic Sites
2006**

	LSP	%	SSP	%	Total
No. of valid thefts & Kwh claimed	17	1.23%	1,362	98.77%	1,379
Kwh Claimed	2,804,453	8.57%	29,916,071	91.43%	32,720,524
Average for 12 months	164,968		21,965		23,511

Unreconciled Energy (Delay Risk)

Table 2a below illustrates a typical read performance (as demonstrated at Distribution Workstream in March) of a shipper to the Industrial and Commercial market across a monthly read portfolio in 2006. This illustrates that actual read performance is consistently around 98-99% each month, leaving an insignificant amount of energy to roll over into the RbD sector each month. In any case, any rollover of energy into the RbD sector is of a temporary nature as the must read timescale for monthly read meters is restricted to four months only.

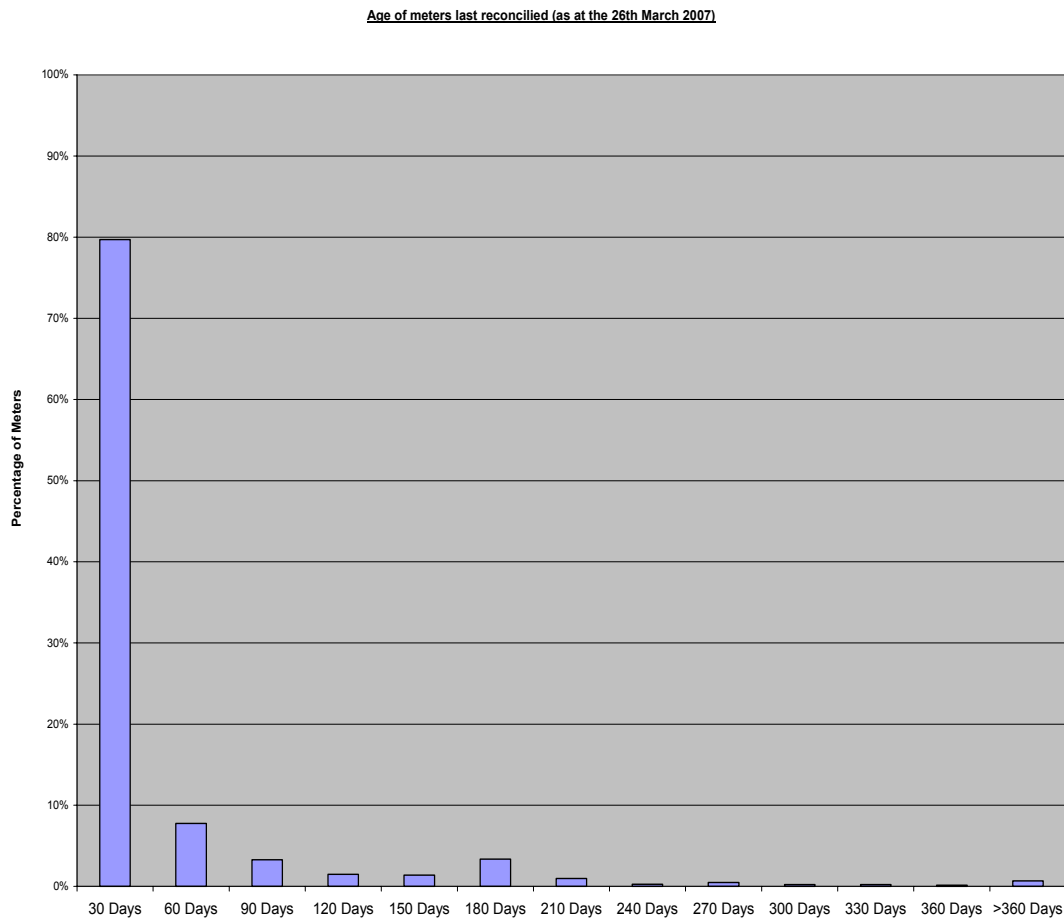
Table 2a (Source: Gaz de France ESS)



Ed at March

Table 2b below illustrates the read performance of a typical (as demonstrated at Distribution Workstream in March) Industrial and Commercial shipper across its monthly read portfolio and shows the decay in number of days since it's meters were last read. Clearly, the number of meter points where reconciliation is greater than 90 days is minimal and causes little disruption to unreconciled energy in the RbD sector. Again, this demonstrates the insignificant and temporary nature of any contribution to unreconciled energy, and typically by its' very nature this energy tends towards a net zero as negative reconciliation on some sites offsets positive reconciliations on others.

Table 2b (Source: Gaz de France ESS)



Shipperless sites

The issue of shipperless sites is not prevalent in the monthly read LSP sector. Here, supplier pre and post contract processes coupled with customer billing checks clearly identify any missing sites across a portfolio; indeed it is common for there to be specific roles within Industrial and Commercial supply companies to trap and correct such errors in portfolio reconciliation.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence

This modification proposal would better further the following relevant objectives as defined in SSC A11.1 of the Gas Transporters' Licence as follows:

c) "The efficient discharge of the licensee's obligations under this licence"

This alternative modification proposal proposes a two tier transportation price for LDZ commodity and as such better reflects the costs incurred by transporters in their transportation business.

This proposal improves the regulatory obligation of transporters to comply with Gas

Transporters Licence Standard Special Condition in respect to transportation charging over and above that of the original modification proposal 115.

Standard Special Condition A5 states that Relevant Methodology Objectives should achieve the following:

- a) That compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its' transportation business;
- b) That so far as is consistent with sub-paragraph a), the charging methodology properly takes account of developments in the transportation business;
- c) That so far as is consistent with sub-paragraph a), compliance with the charging methodology facilitates effective competition between gas suppliers and between gas shippers.

A separate charging structure for Small Supply Points and Large Supply Points better meets the above criteria. Under this proposal costs are apportioned more consistently to normal charges and better reflect the costs incurred by Transporters.

d) "the securing of effective competition between relevant shippers and between relevant suppliers" to ensure the correct allocation of energy and transportation charges to the market segments most likely to cause costs relating to unreconciled energy.

Evidence shows that the main component parts that make up unreconciled energy i.e. theft of gas, delay in LSP reconciliation and meter errors are not present or are insignificant when related to Monthly Read Large Supply Points. Any attempt to smear costs to this segment would artificially inflate costs and hence prices to consumers in this segment and create a cross-subsidy between market segments. This cross subsidy of energy charges would be unduly onerous on those suppliers who are solely active in the Industrial and Commercial market and this uncertainty will most likely result in suppliers increasing risk premium and hence costs to consumers.

This proposal more closely aligns the calculation of transportation charges to the non-monthly read NDM Large Supply Point segment to normal transportation charges. Allocating charges in this manner avoids creating a cross-subsidy effect which would be detrimental to competition in the Industrial and Commercial market. Any such cross-subsidy of transportation charges would be unduly onerous on those suppliers who are solely active in the Industrial and Commercial market and again increases uncertainty and may add costs to consumers.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

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

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:

N/A

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:

N/A

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

This proposal improves the contractual risk for gas transporters over and above the original proposal as the transportation price mechanism more closely aligns to the transporters' charging methodology principles.

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)

N/A

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

It is envisaged that this proposal will use current on line systems and processes with minimal development required and minimal costs incurred.

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

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

None identified

b) The development and capital cost and operating cost implications

No additional costs 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

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)

This proposal better attributes costs to the relevant market sector where costs are likely to have been created (polluter pays principle). This better protects consumers in the Industrial and Commercial sector against a cross-subsidy effect.

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

This proposal improves the regulatory obligation of transporters to comply with Gas Transporters Licence Standard Special Condition in respect to transportation charging over and above that of the original modification proposal 115.

Standard Special Condition A5 states that Relevant Methodology Objectives should achieve the following:

- d) That compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its' transportation business;
- e) That so far as is consistent with sub-paragraph a), the charging methodology properly takes account of developments in the transportation business;
- f) That so far as is consistent with sub-paragraph a), compliance with the charging methodology facilitates effective competition between gas suppliers and between gas shippers.

A separate charging structure for Small Supply Points and Large Supply Points better meets the above criteria. Under this proposal costs are apportioned more consistently to normal charges and better reflect the costs incurred by transporters.

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

Advantages

- Better targets the costs of unreconciled energy to the correct market segments
- Better complies with Transporters Charging Methodology Objectives
- Applies fair and equitable transportation charges relating to unreconciled energy to relevant market segments

Disadvantages

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)

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

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

A reasonable timescale should be allowed to enable suppliers to the I&C market to make changes to their supply contract terms and sufficient lead time to allow a true reflection of costs and risks when negotiating forward contracts with customers.

15 Comments on Suggested Text

16 Suggested Text

Transporters to provide

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) E

Proposer's Representative

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Proposer

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