Draft Modification Report
Reconciliation of Energy for Meter Points moved to the Larger Supply Point category via Annual AQ Review Process
Modification Reference Number 0484

Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

It is proposed that any Supply Meter Point which is configured within a Smaller Supply Point but which becomes a Larger Supply Point is subject to reconciliation following completion of the annual AQ review process, including Appeals. The relevant date for the transfer from Small to 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 1 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.

2. Transco's Opinion

As the AQ sub-group is monitoring this area from a prospective viewpoint the Modification Panel, and the Proposer, has agreed that this Modification Proposal should be regarded as retrospective only. Transco does not support implementation of this Modification Proposal as it seeks to retrospectively change the commercial regime. In addition, the Modification Proposal does not address how Larger Supply Points trapped in the Smaller Supply Point market could be minimised in the future. Sub-groups of the I&A Workstream have met to discuss this Modification Proposal and to identify possible mechanisms that could be employed to retrospectively re-allocate the "threshold crosser" energy, if Transco were directed to implement. The issues arising from the sub-group discussion fall under the following headings :

Transfer of ownership

Charges applied

Classes of threshold crossers

Before the second sub-group meeting was held, the I&A Workstream Chairman invited comments from Workstream members regarding the appropriateness of endeavouring to resolve an exclusively retrospective billing issue. Five responses were received from shippers, of which one supported retrospective adjustment.

The group then held discussions around the mechanisms for re-allocation of energy which could be used. Several options were considered, as follows :

- Full adjustment of all charges previously levied; any Domestic Credits will lead to I&C Debits

- Meter point reconciliation Code principles, i.e. apply transportation rate(s) which prevailed at the time of the initial allocation

- Levied Meter point reconciliation, i.e. apply rates which would have prevailed had the relevant supply points had the same AQ as after the AQ review

- Aggregate meter point reconciliation – Code principles for rates, but process the re-allocation in aggregate by LDZ, rather than at meter point level

- Calculate revised allocations

- Do nothing

In discussions, four of the above were ruled out, leaving full adjustment versus aggregate reconciliation.

The choice of appropriate reconciliation periods was also discussed and two possible approaches were identified. The first approach was to use the first read of the pair which generated the new AQ as the start date for reconciliation, and the day before the AQ review as the end date. Several Users expressed concern that a User taking on a Supply Point from another User whose read performance was historically poor could be disadvantaged: the reconciliation period could be longer than for a similar Supply Point with more frequent reads, leading to higher charges. The alternative approach was to take a standard adjustment period of perhaps 12 or 15 months, to mitigate any differences in read performance.

It was suggested that the timescale for processing these adjustments might have to be open-ended, if it were dependent on the submission of the first meter read after the AQ review. This might result in the adjustment being processed in stages, with the last reads being received up to two years after the AQ review, and adjustments flowing throughout that period, as reads became available.

The group, with the exception of the Proposer, was against implementation of this Modification. If it is the Authority's decision to implement this Proposal a further meeting may be desirable to finalise the exact approach.

3. Extent to which the proposed modification would better facilitate the relevant objectives

The proposer has not suggested the extent to which implementation of this Modification Proposal would better facilitate the relevant objectives.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

None identified.

b) development and capital cost and operating cost implications:

Any method adopted would result in Transco and Users incurring costs in the development of systems and usage of resources.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Transco does not propose any additional cost recovery.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco has not identified any such consequences.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

The implementation of this proposal would result in energy and charges, derived in accordance with the Network Code, being re-allocated. The principle of retrospectivity introduces unanticipated changes and instability which increases risk. There would be impacts on Transco and Users which would not have been anticipated and could have undesirable consequences.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco and Users would have to develop their systems in order to derive and validate any reconciliations and /or adjustments.

7. The implications of implementing the Modification Proposal for Users

Potential implication on Users would be dependent upon the mechanism adopted.

8. The implications of implementing the Modification Proposal for Terminal Operators,Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

There may be an effect on consumers and suppliers that have been charged domestic rates when their consumption should have been calculated at I&C rates.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is not aware of any such consequence.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Perceived over deeming in RbD could be partly addressed

Could resolve gaming or poor practice

Cost reflectivity (more accurate charges for individual sites)

Disadvantages

Retrospectivity has previously been avoided

Re-opens Users' prior periods which have been closed

Could be regarded as an unwelcome precedent

Any impact on Transco revenue could impact price stability

May require special RbD pot

Administration cost faced by both Users and Transco

There may be an incentive not to amend incorrect AQs

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations are now invited.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Transco does not believe that implementation of this Proposal is required to comply with any safety or other legislative requirements.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is not aware of any such requirements.

14. Programme of works required as a consequence of implementing the ModificationProposal

As a finalised approach has not been agreed the exact programme of works has not been decided. However, system changes would be unavoidable.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

If directed to implement Transco would recommend that a further industry meeting be held to consider the appropriate implementation timetable given the complexity involved.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this retrospective Modification Proposal is not implemented.

17. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: