

Workstream Report
Amendment of "User SP Aggregate Reconciliation Proportion" to incorporate historical
AQ Proportions
Modification Reference Number 0171
Version 0.3

This Workstream Report is presented for the UNC Modification Panel's consideration. [The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]

1 The Modification Proposal

The current method of calculating a Shipper's share of an Aggregate NDM Reconciliation charge within an LDZ is based on their proportion of Aggregate LDZ AQ in the month before the invoice is issued. This therefore means that a Shipper will be billed for the proportion of energy that is to be recovered based on the percentage of energy that they are currently liable for within that LDZ, and not on the proportion of energy that they were liable for at the time that the adjustment seeks to correct. This is not an equitable solution, as can clearly be seen in the recent reconciliation issue in the South East LDZ, where shippers picked up a share of a £25.8m reconciliation based on their current AQ holdings within the LDZ, even though some of them had not been active in this LDZ during the whole of the six year period that this invoice spanned.

The current regime acts as a barrier to entry for new Shippers entering the UK market as they may incur costs for a period before they commenced commercial activities. It also inhibits competition as Suppliers could be penalised by offering more attractive terms to gain new customers. Any Shipper taking on new customers will inherit the risk that a large reconciliation invoice may be issued for costs going back to 1st Feb 1998 (or the current effective backstop date following the implementation of UNC Modification 152V should any reconciliation take place after April 1, 2008). In extremis it could create pricing issues in a Supplier of Last Resort situation.

Under the current regime the energy charges and transportation charges are calculated on a daily basis for the period that it is being reconciled, and it is proposed that the Shipper's share of charges for this period are also calculated based on their historical AQ holdings at the time the error took place on a monthly basis. This will ensure that any costs/credits are targeted at those Shippers who have actually accrued them rather than the ones that are active in the market at the time the reconciliation invoice is issued.

It is recognised that due to changes in the Shipping community there may be instances when not all the costs can be recovered, for instance due to a Shipper becoming insolvent. It is additionally proposed that under these circumstances those monies that cannot be recovered should be smeared across the industry based on Shippers' proportion of AQ holdings within that LDZ on the dates that the costs were incurred. In the case of a User being merged with or acquired by another User, the

existing post-merger User or the User that carried out the acquisition will be liable in relation to the former User.

It should be noted that this proposal is intended to apply to both credit and debits.

Failure to implement this proposal will mean that Shippers will continue to pick up their share of any reconciliation based on their AQ holdings at the time that the invoice is issued, creating a barrier to entry for any new Shippers and those that wish to gain market share. Furthermore failure to implement this proposal will continue to ensure that there is no correlation between the energy delivered during the reconciliation period and the proportion of the reconciliation invoice that shippers are exposed to, and therefore transportation charges will not be cost reflective.

For the purposes of clarity it should be noted that this process should only be applied in cases where the reconciliation amount is a minimum of 50 GWhs. This is aimed specifically at adjustments to NTS/LDZ offtakes, which, we have been informed, Xoserve can manage via an off line solution.

2 **Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would ensure that costs are targeted at those who incur them.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Implementation would remove a potential barrier to entry to any new Shippers entering the UK, and those entering new areas outside of their traditional core business.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to*

secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Implementation would not be expected to better facilitate this relevant objective.

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

RWE npower believes that there are no security of supply issues, however implementation of this proposal will facilitate the efficient and economic operation of the pipeline system as costs will be targeted at Shippers based upon their market share at the time that they were incurred.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

No implications for operation of the system have been identified.

b) development and capital cost and operating cost implications:

xoserve have indicated at the August Workstream that an offline process should be able to handle such events and as such will not incur any significant costs.

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

RWE npower does not believe the costs associated with this modification to be significant enough to warrant special recovery mechanisms.

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

No consequence for price regulation has been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

xoserve have indicated at the August Workstream that an offline process should be able to handle such events and as such will not incur any significant costs.

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

Administrative and operational implications (including impact upon manual processes and procedures)

RWE npower believes that implementation of this Modification Proposal will not have any significant impact on Users' level of contractual risk.

Development and capital cost and operating cost implications

No such costs have been identified.

Consequence for the level of contractual risk of Users

No such consequences have been identified.

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

No such implications have been identified.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

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

Advantages

- Costs are more accurately apportioned to those who incur them, in line with the "polluter pays" principle.
- Removes barrier to entry for new Shippers/Suppliers entering the UK

market.

- Will protect those Suppliers who are seeking to gain market share through offering more attractive prices from incurring costs not associated with previous activity.

Disadvantages

- Some parties felt that any unallocated portion should remain unallocated and not be an additional cost on the Shippers, the Proposer of this mod does not share this view as it would undermine the integrity of the RbD system.
- xoserve have indicated that whilst there could be some costs involved in developing an offline system however these are expected to be small.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)

No written representations have been received, however RWE have taken into account the presentation made by xoserve at the August 2007 Distribution Workstream.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works has been identified as a consequence of implementing the Modification Proposal.

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

01 January 2008

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Workstream recommendation regarding implementation of this Modification Proposal

[The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]