

CODE MODIFICATION PROPOSAL No. 00XX

“Amendment of “User SP Aggregate Reconciliation Proportion” to incorporate historical AQ Proportions”

Version x.x

Date:

Proposed Implementation Date: 1 Jan 2008.

Urgency: Non-Urgent

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

This topic was discussed within the Distribution Workstream at the June 2007 meeting. It is requested that this Modification Proposal now goes to the Distribution Workstream for further development.

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

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. 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, it seems reasonable that the Shipper’s share of charges for this period are also calculated based on their historical AQ holdings on a daily 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 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.

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. Further more 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 the UNC will continue to be not cost reflective.

For the purposes of clarity it should be noted that there is no intention to change the normal reconciliation of a Large Supply Point following the receipt of a meter read and the subsequent adjustment to the RbD sector.

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

Standard Special Condition A11.1 (a) the efficient and economic operation of the pipeline system to which this licence relates, by ensuring that costs are targeted at those who incur them.

Standard Special Condition A11.1 (d) the securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers, by removing a potential barrier to entry to any new Shippers entering the UK, and those entering new areas outside of their traditional core business.

Advantages of the Proposal

- Costs are more accurately apportioned to those who incur them, in line with the reasonably held “polluter pays” principle.
- Removes barrier to entry for new Shippers/Suppliers entering the UK market, and those seeking to gain market share through offering more attractive prices

Disadvantages of the Proposal

- Associated system costs for xoserve, although unknown they are not expected to be significant.

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

RWE npower believes that 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.

The implication for Transporters and each Transporter of implementing the Modification Proposal, including

i. Implications for operation of the System

None identified

ii. Development and capital cost and operating cost implications

RWE npower believes that there will be some costs associated with modifications to xoserve's systems, however given that these systems are already capable of calculating energy and transportation costs on a historic, daily basis; we do not expect these costs to be significant.

iii. 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.

iv. Analysis of the consequences (if any) this proposal would have on price regulation

None identified.

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

None identified.

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 System and related computer systems of each Transporter and Users

None identified.

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

RWE npower believes that implementation of this Modification Proposal will only impact on Users' level of contractual risk, however we do not believe any additional risks will be created in that the effect of this proposal will be to transfer the risk from an "incoming" User to the "outgoing" User. We believe that this is a more equitable solution to this risk, as essentially outgoing Users will remain liable for the costs associated with the energy that they have received the benefits of providing to the end consumer, whereas under the current regime the risks are transferred to the incoming User, even though they will have received none of the benefits associated with shipping this energy.

Code Concerned, sections and paragraphs

UNC Transportation Principle Document Section E Paragraph 7.2.2 (f)

Proposer's Representative

Simon Howe

Proposer

Chris Harris

Signature

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