

Stage 01: Modification

0507:

Changing The Effective Date of 0451AV

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This modification seeks to amend the reconciliation effective date of 0451AV to 1st October 2014



The Proposer recommends that this modification should:

- proceed to Consultation



High Impact:
Shippers



Medium Impact:



Low Impact:

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3 **Any questions?**

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About this document:

This modification ~~will be~~was presented by the proposer to the panel on 17th July 2014.

~~The panel will consider the proposer's recommendation and agree whether this modification should be:~~

- ~~• issued for consultation, or~~

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1 Summary

Is this a Self-Governance Modification?

As this modification is seeking to change the current effective date of 0451AV 1st February 2014 to the 1st October 2014, we don't believe this would be a self-governance modification as it would change the date of the commencement of reconciliation to the pre-payment profile under modification 0451AV.

Is this a Fast Track Self-Governance Modification?

We don't believe this modification would fit the criteria for self-governance so would not be eligible to be fast tracked.

Why Change?

When Ofgem approved Modification 0451AV, they rejected 0451V due to the retrospective element within it. However, by directing implementation of 0451AV to be the 1st February 2014, with the pre-payment profile to be used not developed, Ofgem have added an element of retrospection. Ofgem have also added uncertainty to the market place, as shippers will have no way to calculate the invoice they will receive for the payment profile with the profile not yet developed. The February 2014 implementation date also goes against the original intent of 0451AV, which was to balance out the allocation over a gas year.-

~~Xoserve believe that the solution will not be ready until January 2015 and there is currently no solution date from DESC for the pre-payment profile. This will mean that when Xoserve do implement the solution they will be performing a reconciliation back dated to the 1st February implementation date, which if the solution is delivered in January 2015, will mean that shippers will face an invoice for an 11 month period. Due to the fact that the pre-payment profile has not yet been developed this will mean shippers will have no way of predicting the value of this invoice and as such will create considerable uncertainty within the market place for shippers who operate within the pre-payment market. Market uncertainty along with retrospection is something that Ofgem have always sought to avoid and has been used as a reason for rejecting modifications previously. An example of this was modification 0456 which sought to bring forward a more accurate AUGER methodology but was rejected by Ofgem due to the market uncertainty it could bring despite recognising it to be a more accurate method for allocating un-identified gas.~~

Solution

We are proposing that the reconciliation under 0451AV should not commence until 1st October 2014 so that the reconciliation going forward would be over a full gas year. Reconciliation may also not commence until the pre-payment profile has been fully developed so that shippers will be able to calculate the invoice amounts. If the Authority decision and/or the pre-payment profile has not delivered by 31st January then there will be no reconciliation under 0451AV.

~~It is proposed that the reconciliation effective date of modification 0451AV is changed to the 1st October 2014, providing the pre-payment profile has been developed and the industry has had chance to review it to ensure it is fit for purpose. Our reasoning for choosing this date is that would align with the start of the new gas year and therefore would ensure that the change effects a full gas year and as such allows for volume to be more accurately apportioned throughout the gas year rather than the current proposal which is being brought in mid-year and won't ensure the equitable allocation of gas. It would also ensure that DESC would have had plenty of time to develop the pre-payment profile required. If once the profile has been published by DESC any shipper raises concerns with DESC over the profile, then reconciliation would not be able to commence until those concerns have been satisfactorily addressed by DESC. If either the Authority decision, or pre-payment profile is not delivered by the 1st January 2015 then there should be no reconciliation under 0451AV. The reason for this is that 0451AV was originally raised to balance out the apportionment of gas over the winter and summer periods for pre-payment meters.~~

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~~Commencing reconciliations after 1st January 2015 would mean that the re-apportionment wouldn't be over a whole gas year and therefore would not fulfil the intent of 0451AV. This would also be in line with Ofgem's decision on iGT054 where they stated that "Given that any relative over or under allocation of gas during the winter or summer months is netted off over the course of a year, we do not consider that it would be appropriate to allow for an alternative profile to be used for less than a whole year". Also with the UK Link Replacement due to commence 1st October 2015, 0451AV would not remain cost effective.~~

Relevant Objectives

We believe ~~this-that~~ this modification would have a positive impact on relevant objective D, as by removing the current uncertainty that shippers are facing receiving an invoice they have no way of accurately predicting will remove the negative impact the current reconciliation effective date would have on competition. Also an October start date would allow more accurate financial planning for shippers as it will have removed the uncertainty that the market currently faces. The October start date would more accurately meet the original intent of 0451AV as it would mean the reconciliations would be based on a full gas year.

Implementation

There would be no costs for implementation as this would only be changing the effective date of 0451AV. There could be a reduction of costs of 0451AV as the Transporters would not have to perform a retrospective reconciliation to the implementation date of February 2014.

Implementation 01 October 2014 if a decision is made by 30 September 2014;

Implementation 01 November 2014 if a decision is made by 31 October 2014.

The backstop lead time is the 1st Working Day 30 days following the Ofgem decision.

For clarity if under any of the above proposed implementations a shipper has raised a concern with DESC regarding the pre-payment profile then there will be no reconciliation until the query has been satisfactorily resolved by DESC.

2 Why Change?

When Ofgem approved modification 0451AV, they rejected 0451V due to the retrospective element within it. However by directing implementation of 0451AV to be the 1st February 2014, with neither the pre-payment profile to be used nor the solution to be developed by Xoserve ready, Ofgem have added an element of retrospection.

Xoserve believe that the solution will not be ready until January 2015 and there is currently no solution date from DESC for the pre-payment profile. This will mean that when Xoserve do implement the solution they will be performing a reconciliation back dated to the 1st February implementation date, which if the solution is delivered in October 2014, will mean that shippers will face an invoice for an 11 month period. Due to the fact that the pre-payment profile has not yet been developed this will mean shippers will have no way of predicting the value of this invoice and as such will create considerable uncertainty within the market place for shippers who operate within the pre-payment market. This along with retrospection is something that Ofgem have always sought to avoid and has been used as a reason for rejecting modifications previously. An example of this was modification 0456 which sought to bring forward a more accurate AUGE methodology but was rejected by Ofgem due to the market uncertainty it could bring despite recognising it to be a more accurate method for allocating un-identified gas.

3 Solution

It is proposed that the reconciliation effective date of modification [0451AV](#) is changed to the 1st October 2014, providing the pre-payment profile has been developed and the industry has had chance to review it to ensure it is fit for purpose. Our reasoning for choosing this date is that it would align with the start of the new gas year and therefore would ensure that the change effects a full gas year and as such allows for volume to be more accurately apportioned throughout the gas year rather than the current proposal which is being brought in mid-year and won't ensure the equitable allocation of gas. It would also ensure that DESC would have had plenty of time to develop the pre-payment profile required. If once the profile has been published by DESC any shipper raises concerns with DESC over the profile, then reconciliation would not be able to commence until those concerns have been satisfactorily addressed by DESC. If ~~either the Authority decision or the~~ pre-payment profile is not delivered by the 1st January 2015 then there should be no reconciliation under 0451AV. The reason for this is that 0451AV was originally raised to balance out the apportionment of gas over the winter and summer periods for pre-payment meters. Commencing reconciliations after 1st January 2015 would mean that the re-apportionment wouldn't be over a whole gas year and therefore would not fulfil the intent of 0451AV. This would also be in line with Ofgem's decision on iGT054 where they stated that "Given that any relative over or under allocation of gas during the winter or summer months is netted off over the course of a year, we do not consider that it would be appropriate to allow for an alternative profile to be used for less than a whole year". Also with the UK Link Replacement due to commence 1st October 2015, 0451AV would not remain cost effective.

User Pays

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Classification of the modification as User Pays, or not, and the justification for such classification.
Whilst there is an amendment to a user pays modification, it is only a change to the effective date and therefore there would be no User Pays costs associated with it.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
N/A
Proposed charge(s) for application of User Pays charges to Shippers.
N/A
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
N/A

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Positive

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e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

We believe this this modification would have a positive impact on relevant objective D, as by removing the current uncertainty that shippers are facing receiving an invoice they have no way of accurately predicting will remove the negative impact the current implementation date would have on competition. Also a October start date would allow more accurate financial planning for shippers as it will of removed the uncertainty that the currently implementation date brings. The October start date would more accurately meet the original intent of 0451AV as it would mean the reconciliations would be based on a full gas year.

5 Implementation

If the prepayment profile is ready by the 1st September and an Authority decision is made by the 30th September 2014 then implementation should be 1st October. We have given such a short lead time as this would ensure that the reconciliation going forward would be over a full gas year and as such allows for volume to be more accurately apportioned throughout the gas year. By not commencing any reconciliation until after the pre-payment profile is ready will remove the market uncertainty that is currently in place.

If the prepayment profile is ready by the 1st October and an authority decision is made after the 30th September and by the 31st October 2014 then the implementation date should be 1st November. If an Authority decision is made after the 31st October 2014 then implementation would be the on the 1st working day of the month following the decision, providing the pre-payment profile has been published. If the pre-payment profile has not been published for 1 month, then the implementation date would be the 1st working day 1 month after the pre-payment profile has been published.

For clarity if under any of the above proposed implementations a shipper has raised a concern with DESC regarding the pre-payment profile then there will be no reconciliation until the query has been satisfactorily resolved by DESC.

If the ~~either the Authority decision or the~~ publication of the pre-payment profile is after the 1st January 2015 then there should be no reconciliation under 0451AV. The reasons for this is that 0451AV was originally raised to balance out the apportionment of gas over the winter and summer periods for pre-payment meters. Commencing the reconciliations after 1st January 2015 would mean that the re-apportionment wouldn't be over a whole gas year and therefore would not fulfil the intent of 0451AV. Also with the UK Link Replacement due to commence 1st October 2015, 0451AV would not remain cost effective.

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6 Legal Text

To be provided

7 Recommendation

The Proposer invites the Workgroup to:

- AGREE that this modification should progress to Consultation.

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