

Modification proposal:	<b>Uniform Network Code (UNC) 095: "Reconciliation following AQ Amendment, SSP becoming LSP following change of Registered User"</b> .		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	30 October 2006	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

Under the terms of the UNC, Gas Transporters (GTs) have to undertake an Annual Quantity (AQ) review<sup>3</sup>, which is an annual review of the amount of gas consumed at each Supply Point on the pipe-line system.

The first stage of the AQ review process requires the GTs to calculate provisional AQ values and send these to UNC Users (shippers). The UNC describes how AQs may be amended by shippers and their obligations in approaching this exercise in a consistent and balanced way. The quantities assessed under this process not only drive the allocation of energy for consumption billing processes, but underpin the calculation of daily consumption on Non-Daily Metered supply points for energy balancing purposes.

As a result of this review, a number of Smaller Supply Point (SSPs) are identified as having larger consumptions and have crossed the 73,200 kWh threshold (known as 'threshold crossers'), meaning they should ordinarily be classified as Larger Supply Points (LSP). LSPs are subject to individual reconciliation, rather than Reconciliation by Difference (RbD). Incorrect classification of Supply Points can result in the misallocation of costs, generally to the detriment of the 'RbD community'<sup>4</sup>.

Modification 640<sup>5</sup>, which was approved in June 2004, enabled the GTs to undertake an end of year reconciliation for those Supply Points which had previously been categorised as SSPs and therefore not subject to individual reconciliation. However, in recognition that a number of these sites may year by year, oscillate around the 73,200 kWh SSP threshold, modification 640 contained a number of exceptions to this requirement. Therefore, end of year reconciliations are not carried out for threshold crossers where:

- the AQ increases by less than 15,000kWh or 20%;
- the Supply Point has transferred to another User during the past year; and
- normal annual fluctuations in AQs within the SSP category make it inappropriate to do so.

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> UNC Section G 1.6.4

<sup>4</sup> Shippers whose portfolio is made up predominantly of SSPs and therefore subject to RbD.

<sup>5</sup> Network Code Modification 640 'End of Year Reconciliation of Specific Categories of Smaller Supply Points' which can be viewed at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17175\\_640D.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/17175_640D.pdf)

## **The modification proposal**

This modification proposal is one of series of UNC modification proposals<sup>6</sup> which seek to remove each of the exclusions currently contained within UNC section E7.4.3, as inserted by approved Network Code Modification 640. In particular modification proposal 095 seeks to allow the individual reconciliation of a threshold crosser, regardless of whether there has been a change in the Registered User for that Supply Point since the last AQ revision.

This proposal also seeks to ensure that where a reconciliation does take place, the reconciled quantities are applied to both the current and previous User in proportion to the duration of their registration of that Supply Point.

The proposer considers that by ensuring energy and transportation commodity charges are allocated correctly following the revision of AQs, the implementation of this proposal would further facilitate relevant objective d) of the UNC, the securing of effective competition between relevant shippers and relevant suppliers.

## **UNC Panel<sup>7</sup> recommendation**

At its meeting held on 21 September 2006, the UNC Panel recommended by a majority that this proposal be implemented.

## **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) version 2.0, dated 21 September 2006. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR<sup>8</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>9</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>10</sup>.

## **Reasons for the Authority's decision**

We note that the Joint Office received nine responses to its consultation on this modification proposal, of which four were supportive, one offered qualified support, two were opposed and two provided comments only.

Modification 640 was approved on the basis that it addressed the potential for energy and transportation commodity charges accrued at certain LSPs (those having crossed the

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<sup>6</sup> UNC094: "Reconciliation following AQ Amendment, SSP becoming LSP with change of <20% or 15,000kwh"; UNC096: "Reconciliation following AQ Amendment, SSP becoming LSP following inter process amendment of AQ"

<sup>7</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>8</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>9</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://62.173.69.60/document\\_fetch.php?documentid=6547](http://62.173.69.60/document_fetch.php?documentid=6547)

<sup>10</sup>The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

threshold into that category) to be misallocated to RbD shippers. It was felt at that time that a number of exceptions may be appropriate, as detailed above. Nonetheless, despite these exceptions, it was considered that modification 640 would apply to the majority of threshold crossers. We therefore welcome the confirmation by some respondents that modification 640 has resulted in significant improvement to the accuracy and equitability of the gas settlement arrangements.

However, as detailed in the FMR and using figures from the 2004/2005 reconciliation, LSPs accounting for around 1.4TWh of consumption were excluded from individual reconciliation. The views of respondents were mixed on whether this constituted a material issue and the cost effectiveness of seeking to reconcile these Supply Points.

One respondent, who offered qualified support for UNC modification proposals 094-096, suggested that whilst 23% of all Supply Points are excluded from reconciliation by the existing UNC provisions, those Supply Points account for only 3% of energy consumption. Therefore, whilst acknowledging that the fundamental principle of correcting the allocation energy and transportation charges based on accurate AQs, the respondent questioned whether it would be economic and efficient to reconcile the excluded Supply Points given that the increase in reconciliation transactions may impose additional costs. Another respondent who offered comments suggested that whilst the benefits of the proposal are unclear, the likely additional costs are minimal.

Figures from xoserve<sup>11</sup> show that the majority of energy excluded from individual reconciliation, almost 1TWh, was due to Supply Point transfers. We note that several respondents, who echoed the original rationale behind modification 640, felt that an individual reconciliation carried out on a recently transferred Supply Point may expose the new shippers to charges for the period before they acquired the Supply Point. Some respondents even suggested that this risk of exposure may deter shippers from acquiring Supply points, therefore hindering competition.

Whilst noting the concerns about the incoming shippers being exposed to reconciliation charges, we also note that this proposal seeks to mitigate this exposure by ensuring that any reconciled quantities are applied to both the current and previous shipper, proportionate to the period in which they held the registration to that Supply Point. This not only reflects a more equitable allocation of costs, but may place an incentive on shippers to ensure AQs are accurate at the earliest opportunity.

One respondent, who was opposed to this proposal, did note that reconciled quantities may be applied to the previous shipper, but felt that such a shipper may find it difficult to recover any costs after the issuance of a final invoice to its customers. We do not consider this to be a valid concern, given that any reconciliation charges will reflect a more accurate AQ, nearer to the consumption levels at which the consumer has been billed. This respondent also suggested that there may have been a series of Supply Point transfers, making it difficult to identify when a change in consumption may have occurred. We acknowledge this point, but consider that even with the allocation between the current and previous shipper being conducted on a pro rata basis, it is more appropriate to reconcile these threshold crossers than simply perpetuate any inaccuracy in the AQ or any misallocation of costs to the SSP sector.

Given the above, we agree with the proposer that the implementation of this modification proposal will more effectively allocate energy and transportation commodity charges, and as a result will further facilitate the UNC relevant objective of securing effective competition between relevant shippers and relevant suppliers.

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<sup>11</sup> Source: RbD sub-group minutes, June 2006.

## **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 095: *'Reconciliation following AQ Amendment, SSP becoming LSP following change of Registered User'* be made.

**Nick Simpson**

**Director, Industry Codes & Licensing**

Signed on behalf of the Authority and authorised for that purpose.