Commercial Interfaces Workgroup 14 - 11 August 2004

Agenda item 6

The need to set a reference point for retrospective adjustment of Transportation charges (Energy and Transportation)

Effect of the Sale of a Distribution Network(s)

We believe that consideration should be given to the application of a "line in the sand" principle (as was put in place for the IQR process in 1998). Previously, this has been adopted in order to draw a delineating point to which any query could be backdated. The position on Transportation charges and Energy allocation was effectively "closed out" following the agreement of a commercial settlement of each Users position.

In respect of DN Sales, this would provide a "close out" of energy allocation and transportation charges at the time of sale and therefore each Network Operator is responsible for that only from the date of their ownership. The benefit to Users would be that there is a "clean sheet" going forward with clear responsibility for the reconciliation of any charges in respect of each network. From the date of sale onward there is clear responsibility for the calculation and adjustments of these reconciliations.

A single Transporter (Transco) would have responsibility for the close out all adjustments with each User prior to the point of sale.

Retrospective adjustment

From the overview of the reconciliation process (Appendix 1) it can be seen that there are two main causes of retrospective adjustment of reconciliation quantities. Firstly, the "routine" application of the (equal but opposite) effect of reconciliations applied to larger supply points (with AQ >73,200 kWh). Secondly, the untoward adjustment of the metered volumes into a DN/LDZ. Although these are, by definition, not common there have been a number of such adjustments in the past 2-3 years which have resulted in adjustments across the RbD shippers of several terawatts.

The view has been expressed that that is not an issue as any reconciliation would be "simply" a redistribution of energy (and associated transportation charges) among the same population of shippers and the ownership of the DNs should not impact this at all. This may be the case whilst all DNs are operating to the same processes (the day 1 scenario) but it would not be the case in the event that DNs adopted different practices.

Some of the issues which come to mind which would have an impact are:-

- Changes in CV methodology, this would alter the calculation of energy for a given volume of gas
- Changes in AQ methodology, setting of the AQ would affect aggregate AQ share of RbD exposure
- Re-balancing of Transportation charges between Capacity and Commodity, would alter the transportation element of any reconciliation
- Changes in NDM deeming algorithms would lead to greater/lesser reconciliation quantities and therefore the amounts "smeared" via RbD
- Application of different shrinkage factors would alter the calculation of energy to be reconciled

It would not be possible to apply this type of "close out" position upon each DN independently at the time of introduction of a more diverse practice in these areas, which may create the desire to provide this demarcation. Therefore, the timing of separate ownership appears to present the potential for this line in the sand.

It can be seen from this paper that the impact of this issue falls directly to Shippers subject to the Reconciliation by Difference process.

British Gas Trading considers that this is an issue to be addressed and to examine the potential implications. To date we have received the support of other RbD shippers in this view.

APPENDIX 1

Overview of the Reconciliation Process

In relation to the Reconciliation process applied in Gas Transportation, an absolute position is never completely “closed out”.

Reconciliation is applied in a number of areas:-

1 Supply Point Reconcilaition

a) Daily metered sites – these will be billed based upon the metered volumes recorded each day (collected by datalogger). Reconciliation is only applied to these supply points following the annual inspection and check read and will correct any “drift” between the actual meter read and the datalogger pulses communicated. Following this process the consumption figure is finalised

b) Non-Daily Metered (NDM) sites – these are classified as Large (AQ>73,200 kWh) and Small (AQ < 73,200 kWh). All of these supply points will have a daily quantity of energy consumption allocated based upon the AQ and calculated by algorithm (Annual Load Profile (ALP), adjusted by Daily Allocation Factor (DAF), Weather Correction Factor (WCF). Finally, a Scaling Factor (SF) is applied to bring this into line with the energy metered at the entry point to the DN/LDZ. Therefore, on a daily basis the energy balance calculation is closed out on this basis. When actual meter readings are taken and input to the system the two categories are treated differently.

i) Large NDM

For the larger NDM supply points, the meter reading submitted (which may be Monthly, Quarterly or Annual) will serve to adjust the energy consumed. This adjustment can be positive or negative. An equal and opposite value will also be applied to the aggregate applied across smaller NDM supply points (see below). Therefore, although there is no complete close out across the whole category, each individual supply point will be reconciled to the actual consumption following an accepted meter reading.

ii) Small NDM

For Small NDM Supply points, the initial deeming process is applied but any subsequent adjustment, whether generated by reconciliation of other supply points or by adjustment of the metered flows into the DN/LDZ, is will be applied via the Reconciliation by Difference (RbD) process. The RbD process allocates any quantity of energy across all Users in that DN/LDZ in the proportion of its aggregate AQ holding. These adjustments will never be applied to the actual consumption data for individual supply points. The submission of valid meter reads will serve to amend the Supply Point AQ as part of the annual review process.

2 LDZ Reconciliation

It is also necessary to “adjust” the volume of gas entering each LDZ. Routinely, there are corrections to metered volumes of a minor nature to correct drift as in the Daily Metered Supply Points. Additionally there have been a significant number of corrections of metering errors. These have been caused by incorrect fitting, contamination of the metering equipment or change to the values applied from tracker sites, all causing erroneous initial allocation of energy which requires correction. These LDZ reconciliations effectively move an amount of energy from being accounted for within NTS to LDZs. As the larger supply points are closed out following submission of meter reads. The effect of these LDZ reconciliations is borne entirely by RbD shippers.