

Shared Supply Meter Point Reconciliation **Background Paper to Modification Proposal 370**

1. Summary

The aim of this paper is to specify the intent of Modification Proposal *NNN* and provide a more detailed description of the factors considered and the likely operation of the process. Whilst changes to current Network Code provisions are required, they should be relatively minor, as Shared Supply Points are governed by common rules applicable to all DM Supply Points. The principle impact of these changes will be in reconciliation allocation arrangements following transfers between Shippers at these sites.

2. Introduction

Following the introduction of Modification 139 Consenting User Allocation Arrangements and Modification 200 Amendments to existing Network Code rules relating to Shared Supply Meter Points (SSMP), the concept of competition at a limited number of meter points was established.

Whilst the Network Code has been modified to facilitate the administration and invoicing of SSMP's, it does not adequately address the issues associated with reconciliation. Current provisions for Daily Metered reconciliation do not contemplate the allocations required between Sharing Users and in particular reconciliation variances arising after a transfer of Users takes place.

The purpose of Modification Proposal *NNN*, Reconciliation for Shared Supply Meter Points is to put in place a contractual framework for reconciliation of SSMP's which satisfies the key requirements of Users and Transco without prejudicing the needs of End User Agents.

3. Current Situation

As the Network Code has not adequately addressed the requirements for SSMP reconciliation, there has been no invoicing of reconciliation for the relevant sites. Transco is currently developing a new Unique Sites Billing system which will enable reconciliation invoices to be issued for SSMP's, although the eventual design will be governed by the enhanced Network Code provisions.

Currently there are 24 SSMP's and two Interconnectors, Bacton and Moffat, with a total of 34 active Shippers. In addition consideration will be required for development implications affecting DM CSEP's.

Whilst most SSMP's are subject to an annual check read, encompassed within the current datalogger charges, Bacton Interconnector meters are checked monthly (This is being reviewed and may be extended to quarterly checks). Moffat is currently a quarterly cycle and could possibly move to 6 monthly, in line with contract provisions

4. Network Code

There are a number of factors which shape the nature of the issue and any potential solutions including, current Network Code provisions,

4.1. Current Network Code Provisions

The relevant Network Code sections are:

E.6.1.4. b(ii). The DM Reconciliation Quantity is....(ii) in the case of a Shared Supply Meter Point, for each Sharing Registered User, the quantity determined by allocating the DM Check Reconciliation Quantity between such Users in the same proportions as the previously assumed quantity was allocated in respect of such Day.

This allows for reconciliation variances to be allocated to Users in proportion to their previous gas allocations. It does not facilitate the allocation of reconciled quantities for periods prior to those current Users being in place.

E.6.1.5. (ii). Where (following a Supply Point Confirmation) a User becomes the registered User in respect of a Supply Meter Point and:.....(ii) in the case of a DM Supply Meter Point, the Supply Point was a failed Daily Read Day, or was not the day of a DM Check Read, upon the next following individual.....DM Reconciliation, the Reconciliation values will be attributed entirely to such User, notwithstanding that a part thereof relates to a period before the Supply Point Registration Date; and accordingly such User will obtain the benefit and bear the risk (and the User who formerly was the Registered User of the Supply Meter Point will neither obtain the benefit nor bear the risk) of the Reconciliation Quantity insofar as attributable to the period before the Supply Point Registration Date.

Whilst setting the principle of incumbent Users bearing the reconciliation risk, where a transfer check read is not taken, it does not specifically address SSMP's. A relatively minor change to Network Code would resolve this anomaly.¶

M4.7.1. Transco will at intervals of approximately 12 months, or as soon as reasonably practicable following a Supply Meter Point first becoming a Shared Supply Meter Point and may on other occasions on which it undertakes an inspection, repair or maintenance of the Daily Read Equipment, arrange an On Site Meter Read (a DM Check Read) in respect of each Daily Read Supply Meter.

This section defines the time period between meter reads for SSMP's and thereby the reason why reconciliations have not normally taken place on transfer.

4.2. Interconnector CSEP Ancillary Agreements

Reconciliation provisions for the Interconnectors are covered under Schedule 2 of the relevant Ancillary Agreement. The rules here allow the Allocation Agent upto 20 business days to provide the reconciliation allocations and set out a default methodology for Transco to apply if no allocations are received within this time period.

4.3. Additional Network Code Contractual Provisions

In order to provide some certainty with regard to the allocation process for SSMP reconciliation, it will be necessary to formalise the allocation methodologies employed by Transco and the default process applied to Agents, including those at Interconnectors and DM CSEPs.

Section E.

Transco Service

The Transco service will be based on the use of an Actual Daily Read to close out the period prior to the new SSMP agreement, effectively zero reconciling the previous Users (reconciling between datalogger reads will always provide a zero reconciliation quantity). This has the advantage of ensuring that all reconciled gas for billing purposes is deemed to have occurred in the period when the current registered Users are in place.

Where an Actual Read cannot be provided due datalogger system problems, then Transco will estimate a closing read.

Reconciliation can therefore be carried out on the basis of the current allocation methodology held by Transco for the relevant SSMP.

Agent Service

Whilst the methodology employed by Agents to provide reconciliation allocations to Transco will be as they see fit. Transco would prefer, where possible, that Agents allocation methodologies are similar to those that Transco employ.

Where Transco uses the daily read or estimate to effectively zero reconcile previous Shippers, Agents will use a similar process. Transco will provide the Agent with a reconciliation quantity and the period over which the reconciliation should be allocated, based on the transfer date and subsequent resynchronisation. Agents will then provide Transco with the daily reconciliation allocation breakdown by Shipper, ensuring that the allocation remains whole. This has the advantage of reducing costs and increasing transparency for Agents, Shippers and Transco.

As Transco will only invoice those Shippers who are currently contracted to a SSMP, Agents will not be able to allocate gas to Shippers who have since withdrawn.

Interconnector Agents

Interconnector arrangements are different to normal SSMP's in that meter recalibrations are carried out on a more frequent basis and the number of active shippers can alter on a daily basis.

Reconciliations will be carried out on a monthly, quarterly or possibly six monthly basis. The level of reconciliation is likely to be small as systems are actively monitored, so that metering problems are picked up early and dealt with quickly. Downstream adjustments to Shipper positions in the Interconnector will be catered for as adjustments to linepack.

The default allocation methodology set out in the CSEP Ancillary Agreements allocates reconciliation quantities to Users in proportion to their original allocations on the day in question. This does not, however, cater for the scenario where a transfer of Users has taken place. Some additional provisions will therefore be required to ensure that the default methodology results in allocations to incumbent Shippers only. The default reconciliation allocation methodology will therefore be that: Shippers will be allocated reconciliation quantities pro rata to their previous allocations between either, the latest check read and the point that a Shipper left the Interconnector arrangement, or the previous check read, whichever is the later. This ensures that incumbent Shippers are invoiced and defines the period for reconciliation purposes. The reconciliation quantity will be determined as the difference between the two check reads.

Shippers who join an Interconnector arrangement will be included as an incumbent User and allocations will automatically be adjusted to reflect the existence of a new User.

With the exception of some early instances, no Shippers have withdrawn from Interconnector arrangements and this is likely to remain a very rare occurrence. The reconciliation period will therefore usually be between check reads.

Section G.

Whilst User Agents will have the facility to allocate reconciliation variances as they see fit, Transco will expect that a default allocation methodology will be provided at the time that a new or revised SSMP is requested. Failure to provide an appropriate default would delay the set up process.

Agents will be able to specify their default allocation methodologies upon a new SSMP arrangement being implemented (i.e.contract renewal, reconfiguration or Shipper transfers) and upto four times a year thereafter, providing that thirty calendar days notice is given. Agents however will be unable to use alternate allocation methodologies between periods for the reconciliation quantity. Such default methodology will be a standard percentage based allocation methodology only.

In the event that an Agent fails to provide allocations within 20 business days of receipt of the reconciliation quantity for the SSMP, Transco will apply the default methodology.

5. User Risk Mitigation

Current registered Users at an SSMP face exposure to reconciliation risk from a number of sources.

5.1. The reconciliation quantity - As the reconciliation corrects for datalogger drift, the size of the reconciliation quantity should be relatively small. Current analysis indicates that the total identified community exposure (TRE + GRE) from 1 February 1998 - present is £26,665.86 (net), most of which is entirely attributable to one site, which has been monitored and reconciled monthly due to a specific problem. Quantities identified through meter and datalogger failure or abnormal circumstances will normally be picked up during the course of the contract and dealt with at the time as an adjustment, as in this case.

Of the two sites, in this sample, where reconciliations took place under normal annual processes, reconciliation exposure (TRE + GRE) ranged from £23.38 to £472.50

5.2. Recovery of reconciliation charges from End Users - Generally this issue will arise only when the invoice amount is a debit. Depending on the size of the perceived risk, Shippers can design SSMP contracts to either allow reconciliation pass through or shield End Users from any credits or debits.

5.3. Exposure to Minimum or Maximum take contracts - Again Shippers can design future SSMP contracts in such away as to enable any exposure to contract amount breaches to be isolated. This is borne out by the opinions expressed in recent discussions with two User Agents. It is also consistent with Network Code provisions, where reconciliation does not expose Shippers to overruns.

5.4. Retrospective exposure - The Modification Proposal is confined to a prospective regime commencing around January 2000. Any retrospective reconciliation quantities will be identified separately and invoiced after discussion with the Shippers involved. In cases where only one Shipper is supplying an SSMP or there has been no change in Shared Supply arrangements, then invoicing will be fairly straight forward and can be achieved within the current Network Code provisions.

5.5. Check Read frequency - Currently SSMP check reads are carried out where reasonably practicable after a SSMP is first set up and on an annual basis thereafter or where a site problem has been identified. Transco has considered the possibility of carrying out Check Reads on or before the day of transfer to minimise the risk for Shippers entering SSMP contracts, however believes it will be inefficient and difficult to manage for both Transco and the Shippers concerned. Moreover, given the relatively small value of reconciliations currently identified, exposure is likely to be better catered for through contract provisions.

An alternative would be for Shippers to request a special check read, however as incoming Shippers will not at that stage have a contract, they will be unable to raise such a request. Furthermore, outgoing shippers who do hold a contract are unlikely to request a check read due to the additional administration burden and lack of potential benefit, given their imminent departure. The risk would effectively move from incoming Shippers who have the protection of a contract to outgoing shippers who have little if no such protection. For these reasons Transco does not believe transfer or pre-transfer reads are viable, however reconciliations could be monitored and in the event of large variances being generated, the issue reviewed once more.

6.0 Shorthaul

Due to the complexity of differing rates that could be levied where shorthaul applies or disappplies on transfer, it is proposed that the charging rate will be determined by the specified reconciliation period. In other words for both the Transco and Agent service, it would apply only to the current SSMP contract period and the applicable daily rate used for that period.