

Direct Dial: 020-7901-7307

2 July 2001

Transco, Shippers and Other Interested Parties

Your Ref:
Our Ref : Net/Cod/Mod/370

Dear Colleague,

Modification Proposal 370: Rules for reconciliation at shared supply meter points and DM CSEPs

Ofgem has considered the issues raised in modification proposal 370: 'Rules for reconciliation at shared supply meter points and DM CSEPs'. Ofgem has decided to direct Transco to implement the modification, because we believe that the proposal will better facilitate the relevant objectives of Transco's Network Code. The modification will be implemented on 1 November 2001.

In this letter, we explain the background to the modification proposal and give our reasons for making our decision.

Background to the proposal

Shared supply meter points (SSMP) arrangements set out the requirements by which a DM customer may elect more than one User to supply gas to the supply point. The customer may appoint an agent or use Transco to establish each User's allocation at the supply point. A SSMP agreement could be with a single User if the customer arranges for interruptible and firm supply.

The arrangements for Users to supply gas to an interconnector is set out in the CSEP ancillary agreement but it makes reference to certain provisions in the Network Code relating to reconciliation.

Currently there are no set procedures in the Network Code for reconciling Users at an SSMP or at the interconnector following a change in the number or identity of the Users within the agreement.

However, in the case of a DM site the Network Code states that the outgoing User is zero reconciled on the day of transfer with an actual read obtained on the day. If there is a failure to obtain a meter reading on the day of transfer or if the meter reading is subject to datalogger drift i.e. where the datalogger, which provides a remote read to the meter reader, fails to

accurately reflect the consumption registered by the meter, the outgoing User will be reconciled on an estimated/inaccurate read. To minimise the risk of datalogger drift, Transco, as monopoly DM service provider, resynchronises the datalogger on an annual basis for DM sites and every 3 to 6 months for interconnectors. Zero reconciliation ensures that if the outgoing User is reconciled on the basis of either an estimated read or on the datalogger read which has not taken into account datalogger drift, the incumbent Users will bear any reconciliation risk (credit or debit) when either the actual data is available or where the datalogger is resynchronised. Although the current User is liable for gas consumed prior to taking over the supply point, it is better able to pass the costs onto the customer than the previous User who no longer has a contract with the customer.

The DM reconciliation principles currently do not apply to shared supply meter points or DM CSEPs due to the additional complexity of reconciliation where more than one User is involved in the provision of gas.

The modification proposal

Modification 370 was proposed on 11 November 1999 to recommend extending the rules for DM reconciliation to shared supply meter points and DM CSEPs. If a User leaves the shared supply point agreement it is zero reconciled and any reconciliation quantity resulting from a failed read or meter drift is borne by the remaining Users. The proposal specifies that the reconciliation amount is shared between the remaining Users based on their allocation amount. In the case of a DM CSEP the default methodology allocates reconciliation quantities to Users in proportion to their original allocations on the day in question. If a User has left the interconnector arrangement the amount is calculated, pro rata, against the allocation on the day. If a User enters the arrangement it will be included in the allocation which will be adjusted to reflect the existence of the new user.

Where an agent is responsible for the SSMP Transco will provide details of the reconciliation quantity and the agent will provide Transco with an allocation statement, detailing how the quantity will be allocated between the incumbent Users, within 20 days. If the agent fails to do so Transco will allocate the reconciliation quantity according to the default methodology which would have been provided to Transco before the SSMP agreement came into effect.

The proposal does not apply to single User SSMPs since there are already procedures for reconciliation at these sites.

Transco has proposed an implementation date of 1 November 2001 to allow sufficient time to make system changes.

Respondents' views

Three representations were made with regard to this proposal; two supported the proposal one offered qualified support.

One respondent requested clarification on how the invoicing package to support the proposal would be funded and whether Transco intends to increase SSMP administration charges

because of the proposal. Transco clarified that it does not intend to include system development costs into the administration charges for SSMPs.

One respondent suggested that the reconciliation quantity should be invoiced after agreement with the Users involved to protect them from unpredictable retrospective reconciliation quantities. However, the respondent noted that agreement cannot always be achieved and suggests developing a mechanism to address the situation.

One respondent proposed that Transco use best endeavours to obtain a DM check read on the day of transfer to minimise the risk of reconciliation charges on the incumbent Users. Transco stated that this option was considered, however, it was determined that the cost of obtaining the check read could not be justified since Users' exposure to reconciliation charges to date had been negligible.

One respondent raised concern that schedule 2 of the UK Continental CSEP Ancillary agreement should have been included in the legal text. Transco agreed that it would have been useful to provide the legal drafting of the agreement but notes that it was summarised in section 1(e) of the report.

One respondent argues that in future reconciliation amounts may be more significant therefore provisions are required on the timeliness of invoices and any potential impact on RbD. Transco argued that this proposal will facilitate timely and accurate invoicing.

One respondent originally commented that the initial proposal only permits four changes to the default percentage shares between Users in a twelve-month period. It suggested following current SSMP notification procedures in the Network Code, which does not set a limit for the number of changes within a twelve month period but requires 2 months notice. Transco agreed to this change on the basis that maintaining consistency with current Network Code rules for SSMPs would simplify the process. This would allow for more than four changes per year but Transco indicated that, from experience, the SSMP agreements do not often change.

Two respondents were concerned about the original implementation date of January 2000. Due to the delay in approving the modification proposal Transco has proposed an alternative implementation date of 1 November 2001. Ofgem would like to apologise for the delay in making its decision on modification 370. However, this delay was largely unavoidable and was due to Ofgem identifying a number of discrepancies between the modification proposal and the legal text and ensuring that these discrepancies were suitably rectified. We trust that this delay has given shippers sufficient time to amend their contracts, where appropriate, to recover/reimburse reconciliation amounts.

Ofgem's view

The modification proposal seeks to address the issue of reconciliation following a change to either the number or identity of Users at either a SSMP or at a DM CSEP. The cost involved in resynchronising the datalogger on the day of the transfer it appears to outweigh the benefits given the historically small amounts of reconciliation discrepancy. It therefore appears to be appropriate for the current Users to bear the risk of reconciliation (either a credit or debit)

since they have contracts in place with their customers to be able to recover the costs of the reconciliation quantity.

Ofgem's decision

Ofgem has decided to direct Transco to implement this modification because we believe that it better facilitates the relevant objectives outlined in Standard Condition 7 of Transco's Gas Transporter's licence. In particular, we believe that clarifying the reconciliation rules for DM CSEPS and SSMPs will better facilitate the efficient and economic operation of the pipeline system. Furthermore, the proposal will simplify the process for Users to enter and exit the shared agreements which may secure effective competition at SSMPs and DM CSEPs.

Ofgem notes that Transco intends to implement the modification on 1 November 2001.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Ayesha Uvais
Manager, Industry Codes