

Final Modification Report
Modification Reference Number 0370
Rules for Reconciliation at Shared Supply Meter Points and DM CSEPs

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal:

The Network Code does not fully address reconciliation at Shared Supply Meter Points (SSMPs) or DM CSEPs. The 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.

This Modification Proposal puts forward some additional provisions to enable reconciliation to be carried out at these points.

- a. In line with Network Code principles for DM Reconciliation (Section E 6.1.5), where a valid (resynchronisation) opening meter read was not obtained on the day of transfer, registered Users at a Supply Point will be attributed with the reconciliation value for the period between the next valid read and the previous read.

When a new SSMP Agreement comes into effect, Transco will use an Actual Daily Read to close out the period prior to the new SSMP agreement. This would therefore zero reconcile the outgoing User(s) at a SSMP. Any meter drift or reconciliation volumes would be borne by the new Users in the appropriate period.

Where an Actual Read cannot be provided, Transco will estimate a closing read.

Incumbent Users therefore would bear the risk (credit or debit) for the period prior to their involvement with the Supply Point. The previous Users would not receive any reconciliation amounts.

- b. SSMPs with single Users (such as a Shipper with a firm and Interruptible contract) will be reconciled in line with current Network Code provisions, irrespective of whether a User transfer has taken place between meter resynchronisations.
- c. Where an Agent is in place at a SSMP, Transco will provide details of any reconciliation quantity and the period over which it should be allocated.

The Agent will have twenty working days to allocate the quantity between incumbent Users and provide Transco with an allocation statement.

If the Agent does not provide Transco with the allocated reconciliation quantities within this time period then a default will be applied. For SSMPs the default used will be specified on the Shared Supply Meter Point registration forms (which will not be accepted unless this is specified) and must conform to a standard percentage based allocation methodology only.

During the course of a SSMP agreement, Agents and Transco can agree to change the default percentage shares between Users. However, there will be an upper limit of four on the number of changes allowed within a twelve month period and a minimum of one months notice for all changes.

- d. For the Transco service at SSMPs, it is proposed that Transco will allocate the reconciliation quantity to incumbent Users in accordance with the allocation methodology in place under the relevant SSMP arrangement.
- e. At the Interconnectors, the current provisions in the CSEP Ancillary Agreement allow the relevant Agents up to twenty working days in which to allocate the reconciliation quantity. The default allocation methodology in place allocates the reconciliation quantities to Users in proportion to their original allocations on the day in question. This default, however, does not cater for the scenario where a transfer of Users has taken place.

It is therefore proposed that the default is amended to ensure that the methodology results in allocations to incumbent shippers only. The default proposed is to allocate Users pro rata to their previous allocations between the latest check read and either the date on which a User left the Interconnector arrangement or the previous check read (which ever is the later). This ensures that incumbent Users only are invoiced and defines the period for reconciliation purposes.

Users which 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.

- f. The generic agreements relating to DM CSEPs are still under development but it is envisaged that these proposals for SSMPs and Interconnectors will give direction to provisions which could be adapted for DM CSEPs, where an allocation Agent has been appointed.

The provisions for reconciliation at these sites will ultimately be included within the relevant DM CSEP Ancillary Agreement and will be specific to each DM CSEP.

- g. For SSMPs and the Interconnectors, the applicable commodity charge rate will be that which applied on the relevant days of the reconciliation period for the incumbent Users under the relevant SSMP or CSEP arrangement.

2. Transco's opinion:

This Modification Proposal was developed and endorsed by a sub group of the Energy Balancing Workstream and Transco is satisfied that it will put in place a contractual framework for reconciliation of SSMPs and DM CSEPs which satisfies the requirements of Users and Transco without prejudicing the needs of End User Agents.

3. **Extent to which the proposed modification would better facilitate the relevant objectives:**

By enabling the systematised invoicing of SSMP and DM CSEP reconciliation, through a clear and non discriminatory contractual framework, the proposal will better facilitate the efficient and economic operation of Transco's systems. Furthermore, such clarity may encourage effective competition at SSMPs and DM CSEPs.

4. **The implications for Transco of implementing the Modification Proposal, including:**

a) **implications for the operation of the System:**

The implementation of this proposal would have no significant impact upon the operation of the System.

b) **development and capital cost and operating cost implications:**

An invoicing package would be developed within the Unique Sites Billing System which would support the rules for SSMP and DM CSEP reconciliation.

It is estimated that this would require sixty five working days for development, at a cost of about £20,000.

c) **extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:**

SSMP administration charges are recovered in accordance with schedules published in the Gas Transportation charges booklet.

Any amendments to such charges, if required, will be subject to the normal Pricing Consultation process.

d) **analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences are envisaged.

5. **The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal:**

There will be no change to the level of contractual risk to Transco as a consequence of this proposal.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users:

Transco is currently developing an enhanced Unique Sites Billing System which will run independently of AT-Link and Sites and Meters.

If this proposal is implemented an invoicing package would be developed within this system to support the rules agreed for SSMP and DM CSEP reconciliation.

No development implications are envisaged for the computer systems of Users.

7. The implications of implementing the Modification Proposal for Users:

This Modification Proposal would enable clearly defined rules to be established for SSMP and DM CSEP reconciliation. Users would be able to design future supply contracts around these rules and this should reduce any exposure Users could currently face from reconciliation.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators, suppliers, producers and, any Non-Network Code Party:

End Users and Connected System Operators should benefit from clear rules being established for reconciliation and incorporated within the Network Code.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal:

No significant consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party are anticipated as a result of the implementation of this proposal.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal:

Advantages :

- Where there has been a transfer of Users during the reconciliation period, this Proposal will enable Transco to allocate any reconciliation quantity which arises at a SSMP or DM CSEP.

- The proposed rules are transparent and non discriminatory.
- Agents at SSMPs and DM CSEPs will have the ability to allocate reconciliation quantities according to any methodology they see fit, on condition that the allocations are provided to Transco within the proposed twenty working day period.
- Should an Agent fail to provide Transco with allocations for the reconciliation quantity then a default will be applied which has been agreed in advance by all parties and provides allocations with minimum complexity and on the most cost effective basis.

Disadvantages :

- Under this proposal gas can only be allocated to current registered Users. Users which may have been in place during the period to which a reconciliation refers, but have subsequently withdrawn, cannot be allocated gas. This is however in line with current Network Code principles for DM reconciliation and ensures the withdrawing User is protected from financial risk after their contract has lapsed with the End User.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):

Representations on the draft Modification Report were received from BP Gas Marketing, British Gas Trading and Eastern Energy.

BP Gas Marketing give full support for the proposal and make no further comments.

British Gas Trading requests justification of why the proposal allows only four changes per annum to the reconciliation default methodology. The suggestion is made that it would be better to keep consistency with the rules for SSMP notifications, which are contained in Section G 1.7.11(e)(iii) of the Network Code. These rules allow an unlimited number of changes per annum to a SSMP arrangement, providing a two month notice period is given before each amendment.

British Gas Trading also requests clarification from Transco over whether the cost of developing the systems to support this proposal will be recovered through an increase in the SSMP administration charges.

The comment is also made by British Gas Trading that stronger protection should be given to Users involved in retrospective reconciliations. In order to do this it is suggested that the Final Report should state that any retrospective reconciliation quantities will only be invoiced after "agreement" with the Users involved.

Eastern Energy proposes that, given the complexity of SSMPs and DM CSEPs, Transco should use best endeavours to obtain a DM check read on the day of transfer, which would therefore remove the risk on incumbent Shippers entirely.

Eastern Energy also believes that there is the potential for the sums of money involved in reconciliations to become more significant in the future and it is therefore suggested that provisions are required on the timeliness of the invoicing and any potential impact on RbD.

Eastern Energy raises some points on the legal text provided, where more clarification is requested. It is also suggested that the proposed wording for section E6.8.5 (ii) should state that the “result” of the Allocation Methodology will be notified within twenty working days and that section G1.7.17(f) should include a provision for variations on thirty days notice.

The concern is also raised by Eastern Energy that the legal text for the Interconnector CSEP Ancillary Agreement was not provided with the draft Modification Report and it is felt that for consultation purposes this should have been given.

Regarding the implementation date for the proposal, British Gas Trading suggests that this should be set for 31 January 2000. Eastern Energy, however, proposes that a future implementation date would be more practical as it will take time to amend existing contracts to reflect the new provisions within this Modification. It is further suggested that the same provisions as in the proposal could then still be applied to a retrospective reconciliation.

Transco Response:

Transco accepts British Gas Trading’s suggestion on the reconciliation default methodology and agrees that maintaining consistency with the existing Network Code rules on amendments to SSMP notifications may provide a simpler approach. Adopting the rules in section G 1.7.11 (e) would allow a greater number of potential changes per annum than the four originally proposed. However, it is viewed that in practice SSMP arrangements are unlikely to be frequently amended and therefore this could be accommodated by Transco. The legal text has been amended to reflect this and it is now proposed that changes to the reconciliation default be allowed on the basis of section G 1.7.11 (e).

It is not proposed that there will be a specific Pricing Consultation to incorporate the systems development costs into the administration charges for SSMPs. The systems work required will provide additional functionality to the Unique Sites reconciliation system which was introduced in March 1999.

Eastern Energy’s proposal to use “best endeavours” to obtain a DM check read on the day of transfer was discussed by the Sub-Group to the Energy Workstream which developed this proposal. It was not, however, considered to be a feasible, cost effective solution given the limited exposure Users have faced from reconciliations to date.

Transco agrees with Eastern Energy’s comment that timely and accurate invoices are required and believes that this proposal will facilitate such invoicing.

Eastern Energy's comments on the legal text have also been considered as set out below.

Section E6.8.3 refers to a definition, which Transco believes is reasonably clear and consistent with existing Network Code terminology.

The proposed text for section E6.8.5 (ii) should be read in conjunction with the definition of "Allocation Methodology" in paragraph 6.8.4 which clarifies the definition.

The reference to thirty days notice which Eastern Energy believes should be in section G1.7.17(f) was included in paragraph 1.7.11 (e) (iii), although this section has now been amended, following British Gas Trading's suggestion, to maintain consistency with the rules already in Code for amending the SSMP notifications.

Transco acknowledges the concern raised by Eastern Energy over the legal text for the Interconnector CSEP Ancillary Agreement, which was not provided with the draft Modification Report. Transco agrees that this could usefully have been provided but, as stated in the draft Modification Report, the methodology behind the new legal drafting for the Interconnector CSEP Ancillary Agreements was outlined in the "Background Paper" and summarised in section 1.e. of the report.

Finally, Transco suggests that 1 March 2000 could be an appropriate date for the implementation of the Modification Proposal. Transco notes the views of both British Gas Trading and Eastern Energy in this area and has sympathy with the concerns raised by Eastern Energy over the requirement to amend current contracts to adopt these rules. Although the implementation date for the proposal may be before all these contracts can be amended, Transco would like to stress that it will be managing the transition to the new rules and any reconciliations which arise in the months following implementation of the proposal will be discussed with the Users involved.

Transco also notes British Gas Trading's concerns with regard to the potential risk on Users involved with retrospective reconciliation quantities. It should be noted, however, that this Modification Proposal only deals with prospective reconciliation and the Sub-Group considered that a pragmatic approach should be taken for any retrospective reconciliations, where the agreement of all parties would be gained.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation:

This modification is not directly linked to Transco's compliance with any legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:

Not applicable.

14. Programme of works required as a consequence of implementing the Modification Proposal:

There are no modifications required to the UK-Link Systems and therefore a programme of works will not be required as a result of implementing the Modification Proposal.

15. Proposed implementation timetable (inc timetable for any necessary information systems changes):

It is proposed that this Modification should introduce a prospective regime commencing on 1 March 2000 and should not apply retrospectively.

If the proposal is implemented, the rules will be applied to any reconciliation identified from a date shortly after Ofgem approval of the Modification.

Any retrospective reconciliation quantities will be identified separately and invoiced after discussion with the Users involved.

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommends that the proposal is implemented.

17. Restrictive Trade Practices Act:

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal:

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

19. Text:

SECTION E

E6.1.4 b(ii) should read:

- (ii) in the case of a Shared Supply Meter Point, for each Existing 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.

E6.1.5 should read:

Where (following a Supply Point Confirmation) a User (or potentially Users in the case of a Shared Supply Meter Point) becomes the Registered User(s) in respect of a Supply Meter Point, and:

- (i) in the case of an NDM Supply Meter Point, no Opening Meter Read was provided;
- (ii) in the case of a DM Supply Meter Point or a Shared Supply Meter Point, the Supply Point Registration Date was a Failed Daily Read Day, or was not the Day of a DM Check Read,

upon the next following Individual NDM Reconciliation or (as the case may be) DM Reconciliation, the Reconciliation Values will be attributed entirely to such User (or as the case may be Existing Sharing Registered Users in amounts specified in paragraph 6.8), notwithstanding that a part thereof relates to a period before the Supply Point Registration Date; and accordingly such User (or Existing Sharing Registered Users) will obtain the benefit and bear the risk (and the User (or Users) who formerly was/were Registered User(s) 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.

Create E6.8

"Shared Supply Meter Point Reconciliation: Reconciliation Values

6.8.1 This paragraph 6.8 applies in respect of DM Reconciliation in respect of Shared Supply Meter Points.

6.8.2 For the purposes of DM Reconciliation, at the Shared Supply Meter Point for the relevant period:

(i) Transco will in accordance with M4.7.1 arrange a DM Check Read.

(ii) The DM Check Reconciliation Quantity will be calculated in accordance with paragraph 6.3.

6.8.3 “**Existing Sharing Registered User**” is a Sharing Registered User (who may be the Proposing User) in respect of an Existing Supply Point which is a Shared Supply Meter Point.

6.8.4 “**Allocation Methodology**” is a methodology for the allocation of the Reconciliation Quantity between Existing Sharing Registered Users:

(i) used by Transco; or

(ii) used by a User Agent, where the Shared Supply Meter Point Notification provides for the appointment of a Sharing Registered User Agent;

provided that the proportions allocated to each Existing Sharing Registered User aggregate unity.

6.8.5 Where a Shared Supply Meter Point Notification provides for the appointment of a Sharing Registered User Agent:

(i) Transco will notify the Reconciliation Quantity to the User Agent in such manner as Transco may specify in the Shared Supply Meter Point Procedures.

(ii) Where the User Agent does not provide its Allocation Methodology to Transco within twenty (20) Business Days of Transco’s notification to the User Agent under paragraph (i) then Transco shall allocate the Reconciliation Quantity in accordance with the Default Allocation Methodology under Section G 1.7.11(b) (iv).

SECTION G

Create new Section G 1.7.11 (b) (iv)

“where a Shared Supply Meter Point Notification provides for the appointment of a Sharing Registered User Agent a default allocation methodology for the apportionment of Reconciliation Quantity among Existing Shared Registered Users in percentages (aggregating 100%) (“**Default Allocation Methodology**”).”

Create new Section G 1.7.17 (f)

(f) the procedures shall specify that the Sharing Registered User Agent may vary the Default Allocation Methodology in accordance with paragraph 1.7.11(e).

Amend Schedule 2 of the UK - Continent CSEP Ancillary Agreement

Delete existing text against reference to 6.4 and insert text as follows:

- (1) Where pursuant to paragraph 4.5 of Part 1 of Annex D of the CSEP NExA a verification of the measure of equipment at the CSEP is undertaken (for the purposes of Section E6.1.4(c) and 6.4) the Individual CSEP Reconciliation Quantity for each Day for each CSEP User shall, unless paragraph (2) applies, be determined by allocating the Aggregate Daily Reconciliation Quantity (as defined in and determined pursuant to the CSEP NExA) for that Day, between CSEP Users in proportion to their respective UDQOs for such Day, or in such other proportions (aggregating unity) as may be notified to Transco by their agent not later than 20 Business Days after the Aggregate Daily Reconciliation Quantity was provided to CSEP Users or their agent.
- (2) In respect of any Day on which individual CSEP Reconciliation is undertaken pursuant to paragraph (1), a Party ceased to be a CSEP User (the last day such Party was a CSEP User the **“change day”**, and in the event of there being more than one such day, references hereafter to the change day shall mean the last such of such days) the Individual CSEP Reconciliation Quantity for all Days on which Individual CSEP Reconciliation is undertaken pursuant to paragraph (1) shall:
 - (a) for each Day for each CSEP User for Days up to and including the change day, be zero;
 - (b) for each Day for each CSEP User following the change day (a **“relevant day”**), be determined by allocating the daily relevant proportion of the daily relevant quantity between CSEP Users in proportion to their respective UDQOs for the relevant day;
- (3) For the purposes of (2):
 - (a) the **“daily relevant quantity”** is a quantity equal to the sum of the Aggregate Daily Reconciliation Quantities for the Days on which Individual CSEP Reconciliation is undertaken;
 - (b) the **“daily relevant proportion”** is that proportion of the daily relevant quantity that would otherwise be assumed to have been offtaken on each of the relevant days.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0370**, version **1.0** dated 27/01/2000 be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:

The Network Code is hereby modified, with effect from _____, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code
Transco

Date:

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

- 1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

(i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") within 28 days of the date on which the Agreement is made; or

(ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

- 1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.

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