

**CODE REVIEW PROPOSAL No 0161**  
**“Individual Supply Point Reconciliation”**  
**Version 1.0**

**Date:** 12/07/2007

**Nature and Purpose of Proposal**

This review proposal seeks to establish the benefits and opportunities associated with the introduction of Individual Supply Point Reconciliation for Smaller Supply Points (SSPs).

At the start of competition in supply in the non daily metered (NDM) sector it was decided that all supply points that fell into the SSP category with an Annual Quantity (AQ) of < 73,200kWh would be settled based on their AQ and that these settlement amounts would not be reconciled when the meter or meters associated with these supply points were read. Instead the AQ of these supply points are updated for the following gas year based on calculations performed from meter readings taken in the current gas year, if available, via the AQ Review Process. The resultant inaccuracies in cost allocations due to this process are then shared out amongst market participants via the reconciliation by difference (RbD) mechanism in line with each shipper's SSP market shared.

Whilst this process works in a reasonable manner where there is one dominant shipper, as there was at the start of competition, as the market share of other shippers' increases then the scope for substantial cost misallocations amongst shippers as a result of unreconciled meter readings increases.

There is now a situation within the industry where there are now 6 large SSP shippers, the largest of which now no longer has a majority market share. This position has significantly changed since the start of competition, where there was a sole SSP supplier. The increase of wholesale gas prices over recent years has also made the amounts of unreconciled monies even larger. The amounts of energy that are now settled and not reconciled are in the region of 400TWh and this offers scope for huge cost misallocations amongst shippers.

Significant amounts of money have been settled via the RbD mechanism since its introduction, and whilst the recent RbD review quoted total annual RbD amounts that were a relatively low percentage of shippers' overall SSP costs, as the RbD process works on a netting basis, it gives no confidence that there are not big winners and losers within the process. The whole regime, therefore, represents a very large financial risk for SSP shippers.

A review of the existing arrangements may also improve data quality within the NDM sector and emphasise the extent of other 'leakage' points. It will also increase the benefits of smart metering.

A significant amount of work and effort is put into the AQ Review each year. A regime of all SSPs being reconciled to meter reads will significantly reduce this exercise, if not make it redundant.

A review group is, therefore, required to discuss the details around the proposal of putting in place a mechanism to allow individual supply point reconciliation, as there are a number of possible options in how it could be implemented.

### **Any further information (Optional)**

The current xoserve systems are due for replacement in 2012. With the requirements for this system due to be initially scoped in the early part of 2008, now is an appropriate time to include these new requirements, rather than build a separate system or systems a relatively short time after, which is likely to be a far more difficult and expensive option. The replacement of UK Link provides the industry with a unique opportunity to review and amend the existing arrangements, however due to the challenging timeframe associated with the scoping and development of the xoserve systems, it is critical that the work of this review group is undertaken in a timely manner.

There has been significant advancement in technology and industry processes have evolved, since the implementation of RbD. There are few other industries, if any, of the magnitude of the gas industry that utilise such imprecise cost allocation methods. This opportunity allows the industry to address this situation.

During discussions at the June Distribution Workstream, it became apparent that the scope of this proposal should include a review of the wider gas reconciliation and settlement processes, which are included in the suggested terms of reference below.

In previous discussions on this subject, the barrier to this type of proposal has always been the argument that the existing systems cannot cope with the calculations required. However, the electricity market, which has been in operation for almost 10 years, settles on a half hourly basis, has more meter points and has multiple profiles for a plethora of multi-rate customers, some of which are very complex. If, for example, the gas settlements process was set up similar to that of electricity then the overall number of calculations would be fewer and significantly less complex than those carried out for electricity.

### **Suggested Terms of Reference**

The Group is asked to:

1. Review the existing arrangements and identify opportunities for beneficial strategic reform.
2. Develop an efficient and effective process for calculating and reconciling gas meter readings for all supply points.
3. Consider Independent Gas Transporters' supply points as part of the review.
4. Understand the implications of any new regime upon existing arrangements (e.g. AQ Review Process).
5. Ensure that consideration is given to the UK Link Replacement timeframe.

### **Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** All sections of the UNC that are currently, or potentially impacted by these discussions.

**Proposer's Representative**

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