

**CODE MODIFICATION PROPOSAL No 0167**  
**Changes to Reconciliation Arrangements Under CSEP NExA**  
**Version 1.0**

**Date:** 09/08/2007

**Proposed Implementation Date:**

**Urgency:** Non Urgent

## **1 The Modification Proposal**

### **a) Nature and Purpose of this Proposal**

#### **Background**

Independent Gas Transporters (IGTs) are responsible under Part 5 of Annex A of the CSEP Network Exit Agreement (NExA) for passing volume data to Transporters for each Large NDM Supply Meter Point in order that CSEP reconciliation charges can be calculated and charged to Shippers. Reconciliation should occur for every Industrial & Commercial Non-Daily Metered (NDM) site following the receipt of a meter reading by the iGT. The iGT is required under Part 5 of Annex A to pass the specified data on to Transporters within 30 days. For monthly read sites a meter reading and consequently reconciliation should be possible at least once every 4 months. For non-monthly read sites, readings and reconciliation should be possible at least once every 2 years.

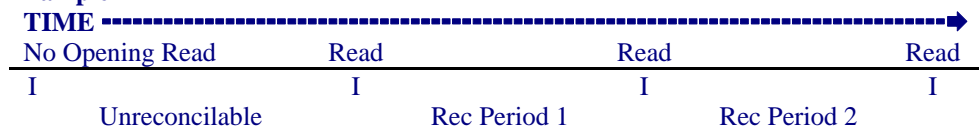
In respect of CSEPs, consumption is calculated per Logical Meter Number (LMN). LMNs are used to attribute energy under the energy balancing regime and determine commodity transportation charges on behalf of Distribution Network Operators (DNOs). Each I&C supply point is assigned an individual LMN. Energy is attributed to the LMN on a daily basis using the AQ and Daily EUC Profile. When consumption details are received by xoserve as a result of meter reading being obtained by iGTs, energy is reconciled against the value originally attributed using the AQ and EUC profile; This results in either a debit or credit to the Shipper.

The level of LMN reconciliations achieved for I&C sites connected to iGT networks has been very low for several years now. Only 2 LMN reconciliations were processed by xoserve in the 12 month period to May 2007, out of 4096 LMNs. There is growing concern that a significant and growing amount of unreconciled energy is being picked up by RbD Shippers.

There are a number of reasons why reconciliation is not taking place but one particular aspect is the requirement that reconciliation can not take place where there is a previously unreconciled period e.g. a missing meter reading. This requirement is set out in the DNO's UNC and is applied under the CSEP NExA. There are a number of sites whose reconciliations were not carried out in the early days of gas competition. There are sites

with unreconciled energy as far back as 1996. This may be because an opening read was never obtained or data passed to the Transporter failed validation, was rejected but never followed up. In these circumstances where subsequent meter reads are received current arrangements do not allow reconciliation. Arrangements were agreed with Shippers to ensure all energy is captured and reconciled.

**Example**



The diagram above shows a scenario whereby an opening read was not obtained. Over a period 3 meter reads are subsequently submitted creating 2 Reconciliation periods. These periods are not reconciled because of earlier missing reads.

**Nature of the Proposal**

Following extensive industry discussion, including Ofgem CSEP NExA Meetings, it has generally been agreed that the current CSEP Reconciliation regime is not acceptable. Where there is no way of obtaining missing reads, there is no likelihood of future reconciliation and the impact on RbD is likely to escalate. A mechanism is required to reconcile such periods. This proposal seeks to address this historical problem.

It is unrealistic to expect Shippers or the iGT to provide an opening read or consumption for the scenario detailed above. In some cases the problem may be 11 years old. It is proposed that periods prior to 2006 be closed out using a one-off adjustment by applying a neutral reconciliation method where no meter readings can be obtained. It is proposed that neutral reconciliation be allowed on all missing Rec periods which are over 2 years old. These reconciliations would be identified and adjustments calculated and notified by the iGT to the Shipper. Consumption for the period would be calculated by the iGT to match the assigned AQ value profiled for that period taking account of seasonality. If the Shipper believes the value notified is incorrect he will have an opportunity to send an alternative meter reading covering the period to the iGT. This must be supplied by the Shipper within 10 Business Days. Once details are agreed the iGT would notify xoserve. Xoserve would then be responsible for processing reconciliations.

**Issues:**

It was acknowledged through industry discussions that it will be impossible to calculate exactly neutral reconciliation values. xoserve will validate the values received from iGTs with a view to minimising any mismatch but there may be small value debits or credits to Shippers.

xoserve will assist IGTs in defining which LMNs have missing

reconciliations and over which periods these apply.

There is no direct link between LMNs over time within the xoserve system. Where one Shipper's ownership ends and another starts the LMN will be different. The link between the two may not be obvious but through manual intervention xoserve will try to identify links.

There may also be cases where there are gaps between live LMNs with missing periods. These tend to be a matter of days. It is proposed that these periods also become subject to neutral reconciliation.

Xoserve generally expect all LMNs under a specific project to be submitted for reconciliation simultaneously. This rule will be relaxed for the purpose of this Modification Proposal to allow one-off adjustment to take place so that each LMN can be reconciled individually. Please note that where there is more than one meter attached to a single LMN xoserve will expect all volumes for all meters under a single LMN to be submitted simultaneously.

### **Ongoing Arrangements**

For the avoidance of doubt, once adjustments have been carried out, reconciliation should flow naturally from that point onwards. In short this proposal is a one-off measure to enable iGTs and Shippers to bring reconciliations up to date and address a specific historical problem. It is envisaged that once the historical problems associated with missing data have been addressed, the ongoing process as currently set out in the UNC and CSEP NExA will be adhered to and enforced to ensure these problems do not reoccur. Where a Shipper fails to obtain an appropriate meter readings the DNO's UNC and the iGT UNC (Part E) provide for Must Reads and Opening Read estimate processes. Where meter readings are not received the iGT should still be able to meet their contractual obligations under the CSEP NExA and provide consumption data to xoserve. There is no apparent reason for the existing reconciliation problem going forward.

### **Reporting**

xoserve will continue to produce CSEP Reconciliation reports to individual iGTs and provide feedback to the industry e.g. through the iGT Workgroup and Ofgem CSEP NExA Meeting. This may include the number of reconciliations completed and outstanding. However it will be the responsibility of iGTs and DNOs to monitor and police any under performance within the regime. Where poor performance occurs the matter may be escalated to Ofgem.

At the Ofgem CSEP NExA meeting on 27 June it was agreed that proposals would be discussed at the Billing Operations Forum on 24 July 2007 and the Distribution Workstream on 26 July 2007. Shippers present were also asked to take proposals back to their organisations so that representations could be made at these meetings. Proposals were discussed again at the Ofgem CSEP NExA Meeting on 1<sup>st</sup> August and the Modification Review Group 0157 meeting on the same day. No issues have been raised at any of

these meetings and it was agreed at the Ofgem CSEP Meeting on the 1<sup>st</sup> August that this Modification Proposal would be raised. It is proposed that this Proposal proceed directly to consultation. The proposal is to formally amend CSEP NExA Annex A to allow the one-off adjustment to take place to where there is missing data preventing processing of future readings and reconciliation. It was suggested at the Ofgem CSEP NExA meeting that this proposal should proceed with a view to implementing the process on 1 October 2007. It is recognised that this timescale is extremely tight. It is recommended the Proposal should be implemented as soon as directed by Ofgem.

### **Interactions with Modification Proposal 0152V, 0152AB and 0152BV**

It is noted that UNC Modification Proposals 152V, 152AB and 152BV relate to close out periods for reconciliation. It is not intended that there would be any conflict between these proposals and this Modification Proposal as this is intended as a one-off solution to address a historical problem and allow future reconciliation. The specific problem associated with missing data would not be resolved by any of the above Modification Proposals. Any subsequent Modification Proposals if approved would then be capable of applying subsequently to CSEPs.

- b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**
  
- c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

It is recommended that this Proposal proceed to consultation.

### **2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

It is believed the Proposal will better facilitate relevant objectives as defined in SSC A11 of The Gas Transporters Licence so far as is consistent with sub-paragraphs (a) and (c) the securing of effective competition between relevant Shippers and Suppliers. It would allow reconciliation to be carried out on a more accurate and equitable basis, minimising any cross subsidy through RbD and providing a clear platform for enforcing and monitoring enduring arrangements going forward.

### **3 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

### **4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

- a) **The implications for operation of the System:**
  
- b) **The development and capital cost and operating cost implications:**
  
- c) **Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**
  
- d) **The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

The one off adjustment proposed under this Modification Proposal should provide Transporters with a clean platform against which current UNC and CSEP NExA provisions can be enforced on an enduring basis, thus reducing contractual risk.

- 5 **The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**
  
- 6 **The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**
  
- 7 **The implications for Users of implementing the Modification Proposal, including:**
  - a) **The administrative and operational implications (including impact upon manual processes and procedures)**

There will be some impact on Users in terms of validating data proposed by iGTs and where possible in obtaining historical meter reads. They are likely to be manual processes. Overall it is believed benefits should outweigh any additional effort or cost.
  
  - b) **The development and capital cost and operating cost implications**

**c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

The level of contractual risk for Users should be reduced as reconciliation should take place for historical periods. By allowing adjustments to take place for historical periods this proposal should provide a more robust platform going forward.

**8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

Implementation will require additional effort particularly from CSOs but overall it is believed it will help ensure compliance and application of robust arrangements going forward.

**9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

**Advantages**

**Disadvantages**

**11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

**12 Detail of all other representations received and considered by the Proposer**

**13 Any other matter the Proposer considers needs to be addressed**

**14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal**

**15        Comments on Suggested Text**

Changes are not required to the UNC but changes would be inserted under Part 5 of Annex A of the CSEP NExA to formally recognise these one-off arrangements become binding.

**16        Suggested Text**

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)**

**Proposer's Representative**

Beverley Grubb (Scotia Gas Networks)

**Proposer**

Beverley Grubb (Scotia Gas Networks)