

Terms of Reference – Version 3.0
UNC Modification Reference Number 0168
Individual Meter Point Reconciliation

Purpose

This Review Group will seek to:

- Establish the costs, benefits, risks and opportunities associated with the possibility of introducing an Individual Meter Point Reconciliation model (IMPR) for Smaller Supply Points (SSPs), when compared with current arrangements.
- Evaluate alternatives to full IMPR, such as revisions to the AQ process for SSPs.

Background

At the completion of Transco's domestic competition project in 1998, that made possible competition in supply in the SSP sector, Supply Point reconciliation was amended to reflect the lessons learned in the initial competition phases. During these earlier phases, all reconciliation was at the Supply Meter Point level.

It was decided that all Supply Points that fell into the SSP category, ie with an Annual Quantity (AQ) of < 73,200kWh, would be settled based on their AQ.

These settlement amounts are not currently reconciled when the meter or meters associated with these Supply Points are read. Instead, the AQs 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. Any 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 share.

It is the view of certain Shippers that this process may have worked in a reasonable manner when there was one dominant Shipper, as there was at the start of domestic competition. However, as the market share of other Shippers' increased, the view is that the scope for substantial cost misallocations amongst Shippers as a result of unreconciled meter readings increased accordingly. Not all Shippers, however, currently share this view.

There is now a situation within the industry where there are a number of SSP Shippers, the largest of which 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 allocated based on AQ, and not reconciled to actual reads, are in the region of [400TWh] and this offers scope for cost misallocations amongst Shippers.

Significant amounts of energy 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 raises questions on whether there are major winners and losers within the process. The whole regime, therefore, represents a very large financial risk for some SSP shippers.

Objectives

The Review Group is, therefore, required to:

- Discuss the details around the proposal of putting in place a mechanism to allow individual meter point reconciliation at SSPs, as there are a number of possible options as to how it could be implemented.
- Establish whether such changes would be justified on a cost/benefit basis and how these costs would be funded.
- Examine similar processes in other industries evaluating the lessons that have been learned.
- Take into account the significant advancement in technology, and industry processes that have evolved, since the implementation of RbD as changes may allow the industry to implement this type of solution, more cost effectively.
- Examine alternative solutions which may bring some of the benefits associated with IMPR and the implications of these for the industry.

This work will take place in the following context:

- Many of the current xoserve systems are due for replacement in 2012. With the requirements for these systems due to be initially scoped in the early part of 2008, now is an appropriate time to include any further 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 much 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.
- In previous discussions on this subject, a barrier to this type of proposal has been the ability of existing systems to cope with the calculations required. However, there is now an opportunity to consider other models for settlement and reconciliation due to UK Link replacement. The opportunity of reviewing other similar systems will therefore be taken by the Review Group.

Scope and Deliverables

The Group is asked to:

1. Consider the existing arrangements and the current issues associated with them.
2. Identify opportunities for beneficial strategic reform that deal with the issues raised or provide other benefits, in the context of proposed UK Link changes.
3. Consider more efficient and effective processes for allocating and reconciling energy derived from meter readings at all Supply Points.
4. Consider Independent Gas Transporters' Supply Points as part of the Review.
5. Understand the implications of any new regime' and any potential mitigations of risks. to existing arrangements (e.g. AQ Review Process), including costs and benefits.
6. Ensure that consideration is given to the UK Link Replacement timeframe.

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above.

Limits

The Review Group will consider changes required to the following:

- Uniform Network Code and associated documents.

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Other than to establish the viability of any potential solution

Composition

The Review Group will comprise the following representation:

Name	Organisation
John Bradley (Chair)	Joint Office
Mike Berrisford (Secretary)	Joint Office
Mitch Donnelly (Proposer)	British Gas Trading
Alan Raper	National Grid Distribution
Alex Travell	E.ON UK
Andy Miller	xoserve
Bali Dohel	Scotia Gas Networks
Chris Warner	National Grid Distribution
Joanna Ferguson	Northern Gas Networks
Karen Kennedy	Scottish Power
Linda Whitcroft	xoserve
Mark Jones	Scottish and Southern Energy
Richard Dutton	Total Gas & Power
Richard Street	Statoil UK
Simon Howe	RWE Npower
Simon Trivella	Wales & West Utilities
Stefan Leedham	EDF Energy
Tim Davis	Joint Office

The Group may also invite experts and representatives of other stakeholders to attend.

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Ofgem's Review of Reconciliation by Difference consultation and issues log (31/03/2006 and 25/06/2007)

(www.ofgem.gov.uk/Licensing/IndCodes/Governance/Pages/Governance.aspx)

- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.

- Industry Codes of Practice as relevant.

And any other information sources the Group identifies

Timetable

A period of six months has been allowed to conclude this Review.

- Frequency of meetings – monthly or more frequently as required. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.