

**Draft Modification Report**  
**Introduction of DNO obligations to facilitate resolution of unresolved USRVs**  
**Modification Reference Number 0192**  
**Version 1.0**

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

## **1 The Modification Proposal**

Review Proposal 0158 “Review of User Suppressed Reconciliation Values’ incentive arrangements” was raised by British Gas Trading in July 2007. A Review Group was subsequently convened with a purpose of reviewing the current UNC incentives with respect to User Suppressed Reconciliation Values (USRVs). The Group concluded its discussions and a Review Group Report was produced recommending modification of the UNC to introduce provisions to ensure that no USRVs are ‘timed out’ as a result of the introduction of Modification Proposal 0152V. The Group considered it appropriate for Distribution Network Operators (DNOs) to administer a ‘backstop’ arrangement to seek resolution of USRVs before they reach the 4/5 year cut off date for invoicing. It was identified that this service should be undertaken on behalf of DNOs by the DNOs’ agent and would be charged for as a UNC User Pays Service set out in the Agency Charging Statement (ACS).

Following discussion within the Distribution Workstream (operating as a Development Workgroup) outline business rules were identified under which a modified regime would operate and these rules form the basis of the proposal;

- With effect from the 30th USRV month after the USRV month during which the USRV was created, the DNO would resolve the USRV using its agent. The resolution timeline applies to the initial USRV and would be unaffected by any new linked USRVs resulting from unsuccessful resolutions by Users. i.e. All linked USRVs would be resolved as part of this process including the current USRV which is the liable USRV (liability is defined in UNC section E paragraph 8.3);
- From the point that the DNO takes on the resolution process in relation to each USRV, that particular USRV would no longer be part of the charges calculated in E 8.3;
- The User would still have the ability to resolve the USRV until such time as the DNO’s agent determines the resolution (which may include a scenario where no reconciliation is required). At the point when the DNO commences the resolution of the USRV (with effect from the 30th USRV month) the service would become chargeable regardless of whether the User resolves the USRV after this point;
- This undertaking would be offered by the DNOs on a ‘reasonable endeavours’ basis to resolve a USRV. This means that the DNO through its agent would use reasonable endeavours to resolve the USRV using conventional methods and having regard to its reasonable endeavours obligation and in the event that it is not practicable to resolve the USRV, at the DNO’s discretion, a zero Reconciliation (i.e.

no reconciliation leaving the position as invoiced) would be applied and this would be deemed to be a final resolution of the USRV and any linked USRVs

- Users should provide any additional information (in their possession) which is reasonably required by the DNO's agent e.g. Meter Readings. The current Registered User should also facilitate access to the customer's premises where requested for the purposes of enabling DNOs to obtain Meter Readings and Meter Information.
- the resolution determined by the DNO would be binding.
- Resolution of the USRV can occur without the need for the User to submit an RGMA flow. Asset data would not be updated by the DNOs agent, but in line with M3.2.15 the Registered User would be informed about any difference discovered in the Meter Information compared to the information held on the Supply Point Register.
- Upon implementation the DNOs agent would resolve the backlog some of which are expected to be over 30 months old. This would include USRVs where part but not all of the reconciliation period has become "timed out" for invoicing purposes in line with (4/5 year cut off).
- Charges in relation to these services would be detailed in the Agency Charging Statement as a User Pays Charge.

In the event that this Modification Proposal were not implemented, it is possible that some Metered Quantities could remain unreconciled because one or more of the periods to which the Metered Quantities relate have become timed out for invoicing purposes following the introduction of UNC Modification 0152V (April '08). Whilst an accurate figure can not be placed upon the associated reconciliation quantities, it is accepted that the risk associated with any unreconciled energy, creates a level of financial uncertainty for all Users.

## **2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of*

- (i) the combined pipe-line system, and/ or*
- (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

***Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***

Implementation would not be expected to better facilitate this relevant objective.

***Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:***

***(i) between relevant shippers;***

***(ii) between relevant suppliers; and/or***

***(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

Implementation of this Proposal would improve prompt and timely resolution of USRVs. This would increase the level of certainty for Users charged through Reconciliation by Difference (RbD).

A more accurate allocation of energy and transportation charges could be expected which would facilitate the securing of effective competition between Shippers and between Suppliers. This measure is therefore consistent with Standard Special Condition A11.1 (d).

***Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;***

Implementation would not be expected to better facilitate this relevant objective.

***Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;***

Workstream members believe implementation would be expected to better facilitate this relevant objective, by providing better cost allocation.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

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

No implications for operation of the system have been identified.

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

Development costs and an increased operating cost would be incurred.

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

It is proposed that the operating cost would be recovered by the User Pays mechanism.

Indicative charges per USRV suggest

- i) Desktop £40
- ii) Desktop plus Site visit £80

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

No such consequence is anticipated.

**5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequence is anticipated.

**6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

xoserve have identified some changes to systems would be required as a result of implementation of this Proposal as new codes/reports would be required within Conquest. Additional charge types would also be required for User Pays Services.

**7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

*Administrative and operational implications (including impact upon manual processes and procedures)*

Minor implications on the provision of data have been suggested by the workstream.

*Development and capital cost and operating cost implications*

Costs have been identified.

*Consequence for the level of contractual risk of Users*

Reduced risk for Users.

**8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No such implications have been identified.

**9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No such consequences have been identified.

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

Helps to ensure that USRVs are resolved before close out of reconciliation period.

Reduces uncertainty for RbD shippers.

More accurate cost allocation between shippers.

Addresses the potential risk of gaming.

More stable costs for Users.

More accurate billing.

Improves data quality.

Avoids Users incurring incentive charges for irresolvable USRVs (£540 to £900).

**Disadvantages**

Removes incentive after 30 months.

**11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

*Written Representations are now sought in respect of this Draft Report.*

**12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

**14 Programme for works required as a consequence of implementing the Modification Proposal**

No programme of works would be required as a consequence of implementing the Modification Proposal.

**15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

A suitable period of time would be required for the DNOs' Agent to develop appropriate processes and procedures and changes to the proposed ACS. An initial period for resolution of the backlog following implementation of this Proposal would be required. Advantageous if implemented as soon as possible.

**16 Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

**18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction] from the Gas and Electricity Markets Authority in accordance with this report.

**19 Text**

**Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.**

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**