

Modification proposal:	<b>Uniform Network Code (UNC) 0167: Changes to Reconciliation Arrangements Under CSEP NExA (UNC167)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	25 October 2007	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

Independent Gas Transporters (IGTs) are responsible under Part 5 of Annex A of the Connected System Exit Point (CSEP) Network Exit Agreement (NExA) for passing volume data to large Transporters (hereafter referred to as Gas Distribution Networks (GDNs)) for each Large NDM Supply Meter Point in order that CSEP reconciliation charges can be calculated and charged to Shippers.

Each Industrial & Commercial (I&C) supply point connected to an IGT is assigned an individual Logical Meter Number (LMN). Energy is attributed to the LMN on a daily basis using the Annual Quantity (AQ) and Daily End User Category (EUC) Profile and is used to determine commodity transportation charges on behalf of GDNs. When consumption details are received by xoserve as a result of meter reading obtained by IGTs, energy is reconciled against the value originally attributed using the AQ and EUC profile; which results in either a debit or credit to the Shipper. The LMN reconciliation of a CSEP should occur for every I&C Non-Daily Metered (NDM) site following the receipt of a meter reading by the IGT. 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 is required at least once every 2 years.

For several years, the level of LMN reconciliations achieved for I&C sites connected to IGT networks has been very low. Only 2 LMN reconciliations were processed by xoserve in the 12 month period to May 2007, out of 4096 LMNs. There is increasing concern that a significant and growing amount of unreconciled energy is being picked up by RbD Shippers. A primary reason cited for why these reconciliations are not taking place, is due to the current rule that a reconciliation cannot take place where there is a previously unreconciled period e.g. where there is a missing meter reading. This situation may have occurred due to sites not being reconciled in the early days of gas competition, where an opening read was never obtained or where the data passed to the GDN (or rather its agent, xoserve) failed validation and the rejection was never followed up. Under current arrangements, LMN reconciliation cannot be completed where there has previously been a missing reconciliation period, even when subsequent meter reads have been received.

Provisions of the CSEP NExA which are entirely between the GDN and the IGT can be made on a bi-lateral basis; the latter being referred to in the context of the UNC as the Connected System Operator. However, change to the provisions which are relevant to shippers are precluded by Section J 6.4 'Amendment of Network Exit Provisions' of the UNC, unless they have been approved by all shippers who use that connected system, or where the modifications rules (under either the GDN's or IGT's Network Code) have been

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup>This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

followed. UNC Modification Proposal 167 was therefore raised following extensive industry discussion, including at Ofgem's CSEP NExA meetings, which suggested that a mechanism was required in order to reconcile historical periods where there is no way of obtaining the missing reads.

### **The modification proposal**

Modification proposal 167 seeks to address the historic problem by closing out periods prior to 2006 by using a one-off adjustment. Under the modification proposal, where IGTs have valid meter readings these will be used to carry out I&C reconciliation. However, it is proposed that where meter readings are not available, a neutral reconciliation will be applied on all missing reconciliation 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, whilst taking account of seasonality. If Shippers consider that the value notified by the IGT is considered to be incorrect they will have 10 Business Days to send an alternative meter reading to the IGT covering the period. Once details are agreed the IGT would notify xoserve. Xoserve would then be responsible for processing reconciliations.

The proposer notes that this one-off measure will enable IGTs and shippers to bring reconciliations up to date. The Proposer considers that implementation of the Modification Proposal 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 and will therefore better facilitate Standard Special Condition A11 (1) (d)<sup>3</sup>.

### **UNC Panel<sup>4</sup> recommendation**

At the Modification Panel meeting held on 20 September 2007, of the 9 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 September 2007. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR<sup>5</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>6</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>7</sup>.

---

<sup>3</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=6547](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)

<sup>4</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>5</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>6</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=6547](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)

<sup>7</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

## Reasons for the Authority's decision

Nine of the ten UNC Parties who responded to this JO consultation on this proposal supported its implementation. The tenth, National Grid National Transmission System (NG NTS) offered no objections, suggesting that other organisations may be better placed to submit views on the merits of the proposal, but seeking confirmation that this proposal is intended to apply only to IGT NDM Supply Meter Point CSEP NExAs. This has since been confirmed as the proposal's intent and, as noted by NG NTS in its response, Section 5 of Annex A does not apply to other NExAs such as those relating to Daily Metered NTS CSEPs.

Respondents who supported the modification proposal considered that whilst the modification proposal was not ideal, the one off exercise offered a pragmatic and timely approach to solving historic issues associated with CSEP reconciliation. The modification proposal was therefore considered to reduce the misallocation of energy to RbD shippers, whilst providing the industry with a foundation to work on enduring arrangements. Modification proposal 167 was therefore considered to better facilitate the achievement of the relevant objective A11 (d) of the UNC<sup>8</sup> by helping to secure effective competition between shippers, suppliers and DN operators. However one respondent noted that the 10 day period allowed to shippers to challenge initial reconciliation values was short.

Like the majority of respondents, we have considered the proposal primarily against Relevant Objective (d) of the UNC, as set out in Standard Special Condition A11 (1) of the Gas Transporters Licence.

***Relevant objective d) - 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***

We agree with the majority of the respondents who considered that there is an increased potential for unreconciled energy to be passed on to RbD Shippers, due to the large number of LMNs (4094 out of 4096 in the 12 month period to May 2007) that have not been reconciled. We do not consider that this current arrangement is appropriate or cost reflective. Additionally, we consider that this misallocation of costs may have an adverse effect on securing effective competition between shippers.

Of the three non-UNC Parties who responded to the consultation, two were IGTs who are counter-parties to the CSEP NExA. They opposed implementation. The IGTs considered that the proposal would require IGTs to commit significant time and resources calculating a notional metered volume from the AQ, and submitting the .CRI file<sup>9</sup> where meter reads have not been provided. However, the IGTs considered that the cost benefit of this activity was unclear as it would result in no or a minimal credit/debit to Shippers through transportation charges, whilst having a significant impact on IGTs resources. The IGTs also considered that xoserve is already in possession of the information required to create the .CRI file (LMN start date / end date and AQ). The IGTs therefore remained unconvinced to the reasons why they were being required to specifically produce neutral reconciliation files given that there was no demonstrable benefit to any Party.

---

<sup>8</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=6547](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)

<sup>9</sup> A 'Crystal Reports Image' file allows raw data to be used as actionable information by the recipient

We have noted the comments made by some IGTs with regards to the impact the modification proposal may have on IGTs resources, particularly with respect to calculating a notional metered volume from their AQ values. However, following further discussion with their agent, xoserve, the GDN's have confirmed to Ofgem that IGTs will not be required to create and submit reconciliation files, but simply inform xoserve of the LMNs and reconciliation periods in question for which a neutral reconciliation is required. Wherever meter reads are available, they should be submitted by the shipper, allowing a normal reconciliation to take place.

The IGTs also noted that if modification proposal 167 were to be implemented, reconciliation may still be problematic in some circumstances, due to misalignments between the date the LMN is created and the date of the opening meter read. The IGTs therefore considered that the validation routine applied by xoserve must be changed to allow reconciliation to follow through after the one off adjustment. We note these concerns. However, this potential further impediment to LMN reconciliation is not a creation of modification proposal 167, and its resolution is not within its scope. We have therefore not considered this issue to be relevant to our decision on modification 167, but would encourage parties to resolve this separate problem and therefore welcome the ongoing dialogue between IGTs and large GTs in this regard.

The remaining respondent, energywatch, offered qualified support subject to some assurance that the benefits will indeed outweigh the costs of the one off reconciliation. They went on to comment that if the one off reconciliation does provide a basis for more accurate and effective data recording and reconciliation on an enduring basis, it will assist in reducing the residual un-reconciled energy which finds its way into RbD and bring costs to consumers down as a result.

Given the above we consider that the one-off adjustment proposed under modification proposal 167 offers a pragmatic approach to solving historic issues with missing meter reads which are currently preventing the LMN reconciliation of a CSEP from taking place, and would minimise the cross subsidy through RbD shippers. The approval of modification 167 will enable changes to the CSEP NExA that will better facilitate Relevant Objective (d)<sup>10</sup> by securing effective competition between shippers and will provide the industry with a foundation on which to work towards an enduring arrangement.

## Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 167: '*Changes to Reconciliation Arrangements Under CSEP NExA*' be made.



**Mark Feather,**  
**Associate Director, Industry Codes & Licensing**

Signed on behalf of the Authority and authorised for that purpose.

---

<sup>10</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=6547](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)