

Modification proposal:	Uniform Network Code (UNC) 200: Introduction of a Date Tolerance to facilitate the processing of Individual Meter Point Reconciliation at LDZ CSEPs (UNC200)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	23 May 2008	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

To ensure that the costs associated with the transportation and use of gas are appropriately apportioned across the shipper community, regular reconciliations are undertaken by the network operator (NWO). In respect of Large supply points (LSPs) at Connected System Exit Points (CSEPs) the relevant independent gas transporter (iGT) is required by the Network Exit Agreement (NExA) to periodically submit reconciliation volumes to the NWO within 30 days of receiving a meter read. The NWO then compares the deemed volume against the relevant Logical Meter Number (LMN) to derive the reconciliation value.

The LMN is the aggregate deemed volume of gas attributed to each individual shipper and therefore consists of a number of meter points. The LMN is the means by which xoserve levy transportation charges to shippers operating on an iGT network. In the event that a shipper loses a meter point, the shipper notifies the iGT who in turn informs xoserve. Xoserve closes the existing (incumbent) LMN and then opens a new LMN with the revised aggregate volume. At the same time a new LMN is opened and closed for the shipper which has gained the meter point.

The current operational and contractual processes have led to a mismatch between the NWO and the relevant iGT records in respect of the applicable dates for the commencement and termination of LMN charges. This has led to occasions where the iGT attempts to submit a reconciliation volume which, according to the NWO records, falls outside of the period for which the user was the registered user for the particular CSEP LSP. Therefore, shipper data being supplied by the iGT in relation to a particular LSP is failing the NWO validation checks and consequently very few or no reconciliation of gas has taken place for LSPs. This lack of reconciliation means that unaccounted for gas consumption feeds into the reconciliation by difference (RbD) process and costs are then borne by the SSP shipper community.

National Grid has proposed the introduction of a tolerance of nine (9) Business Days around the LMN establishment date on xoserve's records. This will allow for the read dates on the iGT system to be accepted when a reconciliation volume is submitted to xoserve.

The modification proposal

This modification proposal seeks to amend Annex A of the CSEP NExA to introduce a processing tolerance of nine (9) Business Days (around the LMN establishment date)

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

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

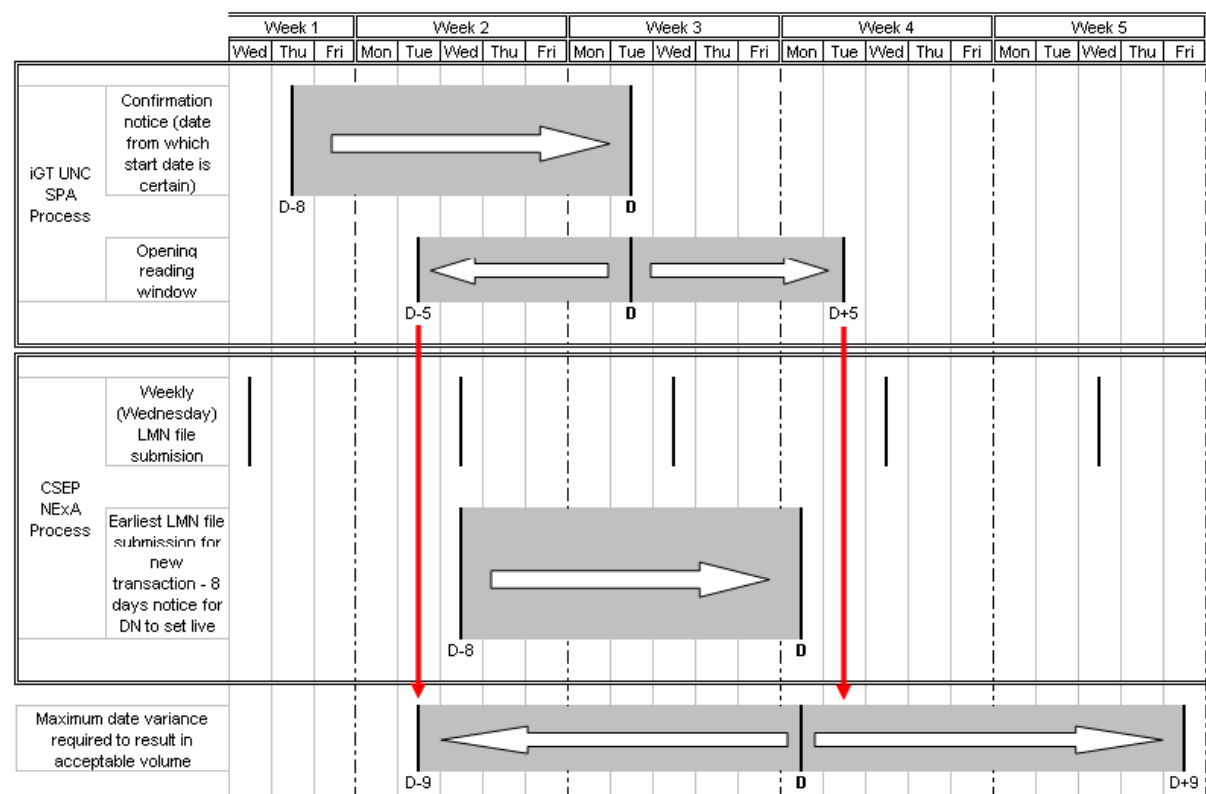
specific to arrangements relating to the transfer of Registered User. The proposer believes that the introduction of this tolerance will permit the iGT reported LMN start and cessation dates to be used in the reconciliation process.

The tolerance process will only be applied to two transactions:

- a) New supply Point set up (i.e. first Registered User – new LMN) and
- b) Supply Point Transfer (i.e. change of registered User – closure of incumbent user LMN, opening of incoming User LMN).

The proposer believes that 9 Business Days is the maximum potential variance between the actual reading date and the LMN start/end date under current business processes.

The diagram below demonstrates the proposers rationale for 9 Business Days being the maximum date variance required to result in an accepted reconciliation volume.



Current CSEP NExA obligations require the iGT to submit LMN updates on a weekly basis every Wednesday. Should the shipper confirm the transfer of a site, for example, on the following Thursday, it takes the iGT to process and confirm that transfer i.e. D will be Tuesday of week 3. The iGT UNC states that an opening read must be taken within an 11 Business day window.

The NWO will not be aware of the transfer of a site until Wednesday of week 2 and as current processing procedures take 8 Business Days, xoserves system would not be able to accept and confirm the transfer until Monday of week 4. Therefore, in this example, should the iGT submit a reconciliation volume read based on its confirmation date (Tuesday of week 3) prior to Tuesday of Week 4 the update would be rejected.

The application of a read window of 19 Business Days would accommodate reconciliation submission based on the iGT read data and the possible read dates that reflects the information on the NWO (xoserve) systems.

The proposer also notes that although updates are received by xoserve on a weekly basis from the iGTs, there is scope for daily updates to be received and processed.

UNC Panel³ recommendation

At the Modification Panel meeting held on 17 April 2008, of the 10 voting Members present capable of casting 10 votes, 10 votes were cast in favour of implementing this proposal. Therefore the Panel recommended 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 17 April 2008. 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 FMR⁴. The Authority has concluded that:

- 1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁵; and**
- 2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁶.**

Reasons for the Authority's decision

Having considered the final modification report and the views of the respondents to the Joint Office consultation Ofgem agrees with the view of the Panel that this proposal should be implemented.

The governance arrangements for the management of CSEPs, in this case iGT Networks are set out within the CSEP NExA. Annex A of the NExA sets out the obligations pertaining to the transfer of shipper information between the iGT and the NWO.

The industry, particularly shippers have indicated that the current arrangements are not fit for purpose as the procedures governed by the CSEP NExA are either not complied with and very opaque and in some instances, redundant. As a consequence shipper data held by the NWO differs substantially from the data held by the iGT. In respect, of transportation charges, the result of this data mismatch has meant that any unreconciled gas consumption is smeared across the Small Supply Point shippers via the RbD process. Therefore shippers may be charged for gas that has not been consumed at their registered sites.

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁵ 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

⁶The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

The proposer notes that analysis of performance of reconciliation of LSPs has been poor and that the iGTs have cited that this mismatch of LMN start and end dates is a significant factor for this poor performance.

Ofgem has and continues to facilitate tripartite (shipper, iGT, Gas Distribution network owners) meetings which seek to identify the root causes of the problems faced by the parties to the CSEP NExA and the impacts these have on shippers. Additionally, under the auspices of the Uniform Network Code (UNC) a review group was established – Review Group UNC157: *Review of IGT Settlement and Reconciliation Arrangements*, which had the specific remit to review the current UNC arrangements in respect of the CSEP settlement and reconciliation arrangements. Both of these groups have made some progress in identifying some of the underlying problems but have not yet fully resolved all the identified issues.

Ofgem believes that this proposal goes some way to deal with one of the processes identified within the groups as undermining the efficient transfer of shipper data between the iGT and the NWO. However, Ofgem is concerned that the proposal is limited in its scope and that, as the proposer intimated, a further modification proposal is likely to be required to resolve the difficulties associated with the submission of the first reconciliation at a new iGT Supply Point. Further, it is Ofgem's view that an opportunity has been missed for both xoserve and the iGTs to propose and undertake improvements to their data processing regimes with a view to reduce the time required to update their respective systems. It is Ofgem's belief that if these issues had been fully considered prior to the submission of this proposal greater progress would have been made in resolving a number of outstanding issues relating to data mismatch.

Notwithstanding the comments above Ofgem is of the view that this proposal is better than the current baseline and agree with the respondents that believe that this proposal better facilitates relevant objective (d) of Standard Special Condition A11 of the gas transporters licence. Introduction of the 19 Business Day tolerance window will allow for the reconciliation volumes based on the iGT opening and closure LSP meter reads to be included and accepted by xoserve when the deemed volumes and actual gas consumption volumes are reconciled. This will lead to a more accurate apportionment of transportation and commodity charges to shippers thus reducing the volume of gas subject to the RbD process, ultimately promoting effective competition between shippers.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC200: Introduction of a Date Tolerance to facilitate the processing of Individual Meter Point Reconciliation at LDZ CSEPs be made.



Mark Feather
Director, Industry Codes and Licensing

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

