



Our Ref: Net/Cod/Mod/721
Direct Dial: 020 7901 7346
Email: nigel.nash@ofgem.gov.uk

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Transco, Shippers and other parties

Dear Colleague,

Modification Proposal 721: Provisions for the Treatment of User Suppressed Reconciliation Values (USRVs) for Terminated Users.

The Office of Gas and Electricity Markets ('Ofgem') has carefully considered the issues arising from modification proposal 0721 "Provisions for the Treatment of User Suppressed Reconciliation Values (USRVs) for Terminated Users" and has decided to direct Transco to implement the modification. This letter explains the background to the modification proposal and outlines the reasons for Ofgem's decision.

Background

The Network Code recognises that in certain circumstances meter reads may generate Non Daily Metered and Daily Metered reconciliation values. Reconciliations are generated from a meter reading obtained in accordance with the Code (must reads or 'Daily Metered' readings), which fail validation checks, become a Suppressed Reconciliation Value (SRV) and are subsequently not invoiced by Transco.

Data provided by shippers can also cause suppressions. These are User Suppressed Reconciliation Values (USRVs) and relate to items within the indicated charges caused by the reconciliation of gas to a meter reading causing an adjustment from the previously estimated or deemed quantities.

Transco's Network Code refers to an ancillary document known as the Network Code Reconciliation Suppression Guidelines. The Suppression Guidelines detail the validation criteria for NDM and DM reconciliation values, the Transco/shipper obligations for resolving USRVs, and performance standards for investigating values that fail the prescribed suppression tolerances.

Modification Proposal

This Modification was proposed by Transco after being developed in a sub-group of its Supply Point and Billing Workstream.

The Proposal sets out arrangements for deeming a reconciliation value to any outstanding USRVs related to that User's portfolio where that User, having been in default of the Network Code, is terminated under the provisions of Section V4.3. Deemed values would be calculated in accordance with the NDM demand allocation process.

Transco's views

Transco proposed and support the modification. Transco have identified that where a USRV is outstanding (which on resolution may result in a debit or credit value) in respect of a meter at a Larger Non-daily Metered Supply Point a risk is borne by those Users in the affected LDZ with Smaller Supply Points where reconciliation occurs via the RbD mechanism. A degree of risk is also borne by Transco of revenue being recovered from an incorrect sector of the market. With the only party contractually able to resolve such items having been terminated from the Network Code, there is no prospect for resolution of the USRVs. The modification would introduce certainty into how such USRVs would be resolved.

Transco note that were unresolved USRVs to be reclassified as Suppressed Reconciliation Values (SRVs), Transco would be required to pro-actively investigate the reason for the suppression and take the necessary actions to release onto an invoice. In this case there would be a resource requirement to address the suppressed items (such evaluation of each site individually would be labour intensive and time consuming) and thus Transco consider that they would incur significant additional costs. Additionally, Transco point out that they would not have the necessary data to resolve suppressions where access to the appropriate Meter Reading Agents and Meter Asset Managers was unavailable.

Transco also note that unresolved USRVs would remain outstanding and may distort future analysis of industry USRV resolution standards.

Shippers' views

Six representations were received with respect to this Modification Proposal. All were supportive of its implementation.

One shipper commented on the potential for a bias in USRV credit and debit values and that it "would welcome any moves to monitor this process to ensure that there is no increase in bias in USRVs resolution occurring". Transco confirmed that it intends to continue periodic analysis and reporting on shipper performance in resolving USRVs.

One shipper identifies the impact that an unresolved filter failure will have for the new supplier when they take these sites over and that they should be made aware of the size of the filter failures to ensure they obtain accurate opening reads to avoid inheriting the same issue. Transco note that the new shipper would not be exposed to the previous charge suppression.

Ofgem's view

The intention behind Network Code Modification 637 was to introduce a mechanism that would incentivise shippers to reduce the number of outstanding USRVs. Transco will be monitoring and reporting on shipper performance in resolving USRVs. As a result Ofgem expects that these measures should reduce the current outstanding USRVs.

The forced termination of a Network Code party under the provisions of Section V 4.3 is a rare event, but it is essential that clear procedures exist for managing such circumstances in a manner that creates the least risk and uncertainty for all parties. Modification Proposal 0721 achieves these objectives in respect of outstanding USRVs related to a terminated User. Ofgem consider that it a proportionate and rational solution.

Ofgem has decided to consent to this modification to the Network Code as the introduction of clear arrangements for dealing with outstanding USRVs where a user is terminated will:

- Reduce uncertainty;
- Remove the risk to RbD Users of USRVs remaining unresolved;
- USRV resolution standards will not be prejudiced following the termination of a User.

Ofgem's decision

Ofgem believes that modification 0721 better facilitates the achievement of Transco's Network Code relevant objectives of securing effective competition between relevant shippers and relevant suppliers and the efficient and economic operation of its pipe-line system as outlined under Amended Standard Condition 9 of Transco's GT licence.

If you have any queries in relation to the issues raised in this letter please do not hesitate to contact nigel.nash@ofgem.gov.uk or via telephone on 020 7901 7346.

Yours sincerely



Nigel Nash
Head of Market Infrastructure