CODE MODIFICATION PROPOSAL No 0115
Correct Apportionment of NDM Error
Version 2.0

Date: 08/03/2007

Proposed Implementation Date: 2007

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf**)**

Urgent procedures are not sought for this Proposal.

This Modification was initially presented as a Development Modification with the aspiration that the Distribution Workstream develop the detailed solution requirements.

Following development at the Distribution Workstream, the proposer believes that the proposal has been sufficiently developed and recommends that the modification should be issued for consultation.

Nature and Purpose of Proposal (including consequence of non implementation)

Following presentation of the Reconciliation by Difference (RbD) verification information to the RbD Sub-Group in 2006, it became apparent that significant quantities of unreconciled energy exist at any time.

The indication given in the RbD verification presentation was that this has resulted in an over-allocation of as much as 3% of Smaller Supply Point (SSP) demand, which equates to an average of 540kwh per MPRN per year in recent Gas years. The composition of this over allocation derives from a number of sources including, but not limited to, unregistered sites, shipperless sites, undiscovered theft, AQ errors, deeming errors etc.

Whilst it is the case that some of this unreconciled energy is of a transient nature (AQ and deeming error for example), which will be corrected once meter point reconciliation has been completed within the Large Supply Point (LSP) market, a significant portion of this error relates to errors which are common across Non Daily Metered (NDM) supply points.

Under the existing arrangements for allocation of energy the burden of these errors, and the corresponding costs, are borne entirely by the Smaller Supply Point (SSP) market through RbD.

Notwithstanding that some element of this unreconciled energy is transient, owing to the interval between reconciliation and the quantities involved the proposer believes that it is appropriate for this to be managed within all the relevant supply point categories rather than being borne solely by the Smaller Supply Point market. It also follows that the non-specific error should also be spread equitably across both LSP and SSP markets.

By definition Daily Metered (DM) Supply Points are outside this process and the daily allocation of energy to these consumers is clear. Although there is reconciliation applied to

DM Supply Points following annual check reads, these are generally of low materiality.

For clarity, it is considered that supply points with Automated Meter Reading (AMR) facilities should also be included within this Settlement exposure.

This Modification Proposal would require Transporters, through their common agency, to utilise existing RbD processes to charge the SSP market as usual. The following month, the smear would be re-allocated across all NDM Supply Points, charging the LSP element and the equal and opposite SSP element on the following months online reconciliation invoice.

Proportions used in this allocation would not be adjusted by subsequent energy reconciliation's.

It is proposed that all energy charged under the revised arrangements detailed within this modification proposal, would be charged at the same rate across all market sectors, with the proposed rate to be used being the current SSP charge. This solution to charging provides consistency with the application of charges under the existing Mod640 mechanism and ensures that all market sectors receive equal treatment.

Further to discussions undertaken with xoserve during the development of this proposal, it is proposed that the invoicing solution that would be required to deliver the aims of this modification proposal, would be achieved by the utilisation of an offline invoicing system. This solution would utilise the current ad-hoc invoicing mechanisms and would not provide a significant impact upon systems, processes or procedures and therefore would be relatively straightforward to implement.

To ensure a clean transition from the current arrangements to those proposed within this modification proposal, it is recommended that a hard landing approach be taken to the implementation of this proposal. This would mean that the application of any subsequent debits or credits, calculated post the date of implementation of this proposal, would be applied to all Users and across market sectors under the terms of the new arrangements.

Consequences of not implementing this Proposal

By not implementing this proposal an inappropriate cross subsidy of costs will continue to exist across market sectors and between market participants with significant quantities of energy continuing to be allocated to the Smaller Supply Point Sector incorrectly which primarily comprises Domestic Supply Points.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence

We believe that this modification proposal would further the relevant objectives as defined in SSC A11 of the Gas Transporters Licence as follows:-

By ensuring the correct allocation of energy and transportation charges following revision of Annual Quantities –

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers

(ii) between relevant suppliers

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

As aforementioned earlier in the proposal, we believe that there will be a minimal impact to systems in order to undertake this apportionment of energy. From information presented to the industry on RbD verification, it is apparent that some processes are already in place to identify the quantities in each category. We are however aware that a more detailed systems impact will need to be undertaken by xoserve to fully ascertain the exact extent of changes required.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) E

Proposer's Representative

Mike Young (British Gas Trading)

Proposer

Mike Young (British Gas Trading)