

**Workstream Report**  
**Correct Apportionment of NDM Error**  
**Modification Reference Number 0115**

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that the Proposal is now sufficiently developed and should proceed to the Consultation Phase.

## **1 The Modification Proposal**

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.

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

**Standard Special Condition A11.1 (a): *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 sub-paragraph (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 sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***

*(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 sub-paragraphs (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;*

Some believe implementation of this Modification Proposal would further this relevant objective by introducing a more equitable and accurate allocation of energy and transportation charges across all market sectors and Users, which are currently borne entirely by SSP shippers. Others believe that the allocation would be less equitable and accurate than the existing approach because of the greater control in the I&C sector. Any improvement in the appropriateness of allocation of these charges would, however, improve cost reflectivity and so facilitate the securing of effective competition between relevant shippers and between relevant suppliers.

**Standard Special Condition A11.1 (e):** *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) 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 sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

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

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

Implementation of this Modification Proposal is not expected to have any effect on security of supply, operation of the Total System, or industry fragmentation.

**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:**

No development and capital cost and operating cost implications have been quantified, although xoserve believe there would be some.

**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 cost recovery should be through the established price control review process.

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

No consequence for price regulation has been identified.

**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**

A system impact assessment would need to be undertaken by xoserve to ascertain the extent of any changes required. However it is believed there will be minimal impact to systems if an offline solution is implemented.

**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)***

It is not expected that there will be any changes to relevant users' operational processes and procedures as this solution would utilise the current ad-hoc invoicing mechanisms. However, additional invoices would need to be processed and reconciled, increasing costs. Pricing systems would also need to be developed to accommodate this new element.

***Development and capital cost and operating cost implications***

No such costs have been identified.

***Consequence for the level of contractual risk of Users***

I&C Shippers would face increased contractual risk since unknown costs would be faced. This would be reflected in operational risk and be built into prices.

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

I&C customers would face higher charges because of the higher costs faced and additional risk factor, but there would be a corresponding reduction in exposure for RBD Shippers which would be expected to lead to reduced prices.

**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/Disadvantages**

- Whether the impacts are advantages or disadvantages depends on the extent of the change implemented, where some believe that the revised proposals allocate too much to the LSP Sector and hence create disadvantages whereas others believe the change is in the right direction and so create advantages.
- Changes the allocation of energy through the reconciliation process.
- Provides arrangements, where costs are not solely borne by SSP Shippers.
- Ensures that going forward all market sectors are treated equally.
- Provides a platform where one market sector does not bear any more risk or reward than another.
- Changes the incentives which may be prevalent in the current arrangements.
- Provides consistent application of smeared reconciliation energy across all market sectors.
- Aligns application of charging methodology to that utilised as part of the Mod640 reconciliation process, although the rate may be inappropriate for the LSP sector.

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

No written representations have been received.

- 12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**
- No such requirement has been identified.
- 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**
- No such requirement has been identified.
- 14 Programme for works required as a consequence of implementing the Modification Proposal**
- No programme for works has been developed.
- 15 Proposed implementation timetable (including timetable for any necessary information systems changes)**
- It is proposed that the UK Link Committee should seek to agree an appropriate implementation timescale following direction by the Authority.
- 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. Workstream recommendation regarding implementation of this Modification Proposal**
- The Distribution Workstream recommends that the Panel should agree to send this Proposal to consultation.