Modification Report
Changes to Reconciliation Arrangements Under CSEP NExA
Modification Reference Number 0167
Version 2.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Background

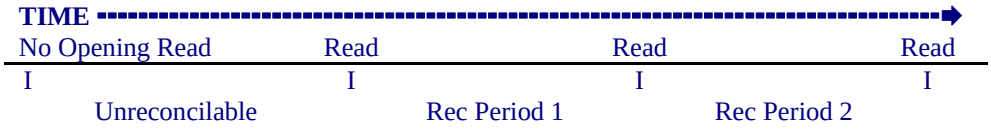
Independent Gas Transporters (IGTs) are responsible under Part 5 of Annex A of the CSEP Network Exit Agreement (NExA) for passing volume data to Transporters for each Large NDM Supply Meter Point in order that CSEP reconciliation charges can be calculated and charged to Shippers. Reconciliation should occur for every Industrial & Commercial Non-Daily Metered (NDM) site following the receipt of a meter reading by the iGT. The iGT is required under Part 5 of Annex A to pass the specified data on to Transporters within 30 days. 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 should be possible at least once every 2 years.

In respect of CSEPs, consumption is calculated per Logical Meter Number (LMN). LMNs are used to attribute energy under the energy balancing regime and determine commodity transportation charges on behalf of Distribution Network Operators (DNOs). Each I&C supply point is assigned an individual LMN. Energy is attributed to the LMN on a daily basis using the AQ and Daily EUC Profile. When consumption details are received by xoserve as a result of meter reading being obtained by iGTs, energy is reconciled against the value originally attributed using the AQ and EUC profile; This results in either a debit or credit to the Shipper.

The level of LMN reconciliations achieved for I&C sites connected to iGT networks has been very low for several years now. Only 2 LMN reconciliations were processed by xoserve in the 12 month period to May 2007, out of 4096 LMNs. There is growing concern that a significant and growing amount of unreconciled energy is being picked up by RbD Shippers.

There are a number of reasons why reconciliation is not taking place but one particular aspect is the requirement that reconciliation can not take place where there is a previously unreconciled period e.g. a missing meter reading. This requirement is set out in the DNO's UNC and is applied under the CSEP NExA. There are a number of sites whose reconciliations were not carried out in the early days of gas competition. There are sites with unreconciled energy as far back as 1996. This may be because an opening read was never obtained or data passed to the Transporter failed validation, was rejected but never followed up. In these circumstances where subsequent meter reads are received current arrangements do not allow reconciliation. Arrangements were agreed with Shippers to ensure all energy is captured and reconciled.

Example



The diagram above shows a scenario whereby an opening read was not obtained. Over a period 3 meter reads are subsequently submitted creating 2 Reconciliation periods. These periods are not reconciled because of earlier missing reads.

Nature of the Proposal

Following extensive industry discussion, including Ofgem CSEP NExA Meetings, it has generally been agreed that the current CSEP Reconciliation regime is not acceptable. Where there is no way of obtaining missing reads, there is no likelihood of future reconciliation and the impact on RbD is likely to escalate. A mechanism is required to reconcile such periods. This proposal seeks to address this historical problem.

It is unrealistic to expect Shippers or the iGT to provide an opening read or consumption for the scenario detailed above. In some cases the problem may be 11 years old. It is proposed that periods prior to 2006 be closed out using a one-off adjustment by applying a neutral reconciliation method where no meter readings can be obtained. It is proposed that neutral reconciliation be allowed on all missing Rec 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 taking account of seasonality. If the Shipper believes the value notified is incorrect he will have an opportunity to send an alternative meter reading covering the period to the iGT. This must be supplied by the Shipper within 10 Business Days. Once details are agreed the iGT would notify xoserve. Xoserve would then be responsible for processing reconciliations.

Issues:

It was acknowledged through industry discussions that it will be impossible to calculate exactly neutral reconciliation values. xoserve will validate the values received from iGTs with a view to minimising any mismatch but there may be small value debits or credits to Shippers.

xoserve will assist IGTs in defining which LMNs have missing reconciliations and over which periods these apply.

There is no direct link between LMNs over time within the xoserve system. Where one Shipper's ownership ends and another starts the LMN will be different. The link between the two may not be obvious but through manual intervention xoserve will try to identify links.

There may also be cases where there are gaps between live LMNs with missing periods. These tend to be a matter of days. It is proposed that these periods also become subject to neutral reconciliation.

Xoserve generally expect all LMNs under a specific project to be submitted for reconciliation simultaneously. This rule will be relaxed for the purpose of this Modification Proposal to allow one-off adjustment to take place so that each LMN can be reconciled individually. Please note that where there is more than one meter attached to a single LMN xoserve will expect all volumes for all meters under a single LMN to be submitted simultaneously.

Ongoing Arrangements

For the avoidance of doubt, once adjustments have been carried out, reconciliation should flow naturally from that point onwards. In short this proposal is a one-off measure to enable iGTs and Shippers to bring reconciliations up to date and address a specific historical problem. It is envisaged that once the historical problems associated with missing data have been addressed, the ongoing process as currently set out in the UNC and CSEP NExA will be adhered to and enforced to ensure these problems do not reoccur. Where a Shipper fails to obtain an appropriate meter readings the DNO's UNC and the iGT UNC (Part E) provide for Must Reads and Opening Read estimate processes. Where meter readings are not received the iGT should still be able to meet their contractual obligations under the CSEP NExA and provide consumption data to xoserve. There is no apparent reason for the existing reconciliation problem going forward.

Reporting

xoserve will continue to produce CSEP Reconciliation reports to individual iGTS and provide feedback to the industry e.g. through the iGT Workgroup and Ofgem CSEP NExA Meeting. This may include the number of reconciliations completed and outstanding. However it will be the responsibility of iGTs and DNOs to monitor and police any under performance within the regime. Where poor performance occurs the matter may be escalated to Ofgem.

At the Ofgem CSEP NExA meeting on 27 June it was agreed that proposals would be discussed at the Billing Operations Forum on 24 July 2007 and the Distribution Workstream on 26 July 2007. Shippers present were also asked to take proposals back to their organisations so that representations could be made at these meetings. Proposals were discussed again at the Ofgem CSEP NExA Meeting on 1st August and the Modification Review Group 0157 meeting on the same day. No issues have been raised at any of these meetings and it was agreed at the Ofgem CSEP Meeting on the 1st August that this Modification Proposal would be raised. It is proposed that this Proposal proceed directly to consultation. The proposal is to formally amend CSEP NExA Annex A to allow the one-off adjustment to take place to where there is missing data preventing processing of future readings and reconciliation. It was suggested at the Ofgem CSEP NExA meeting that this proposal should proceed with a view to implementing the process on 1 October 2007. It is recognised that this timescale is extremely tight. It is recommended the Proposal should be implemented as soon as directed by Ofgem.

Interactions with Modification Proposal 0152V, 0152AB and 0152BV

It is noted that UNC Modification Proposals 152V, 152AB and 152BV relate to close out periods for reconciliation. It is not intended that there would be any

conflict between these proposals and this Modification Proposal as this is intended as a one-off solution to address a historical problem and allow future reconciliation. The specific problem associated with missing data would not be resolved by any of the above Modification Proposals. Any subsequent Modification Proposals if approved would then be capable of applying subsequently to CSEPs.

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

Standard Special Condition A11.1 (a): the efficient and economic operation of 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;

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;

The Proposer believes that implementation 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.

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… 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

No such implications have been identified.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

No such implications have been identified.

b) Development and capital cost and operating cost implications

No such implications have been identified.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No cost recovery mechanism is proposed.

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

No consequences have 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

The one off adjustment proposed under this Modification Proposal should provide Transporters with a clean platform against which current UNC and CSEP NExA provisions can be enforced on an enduring basis, thus reducing contractual risk.

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

No UK Link systems implications have been identified.

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)

There will be some impact on Users in terms of validating data proposed by iGTs and where possible in obtaining historical meter reads. They are likely to be manual processes. Overall it is believed benefits should outweigh any additional effort or cost.

Development and capital cost and operating cost implications

No such implications have been identified.

Consequence for the level of contractual risk of Users

The level of contractual risk for Users should be reduced as reconciliation should take place for historical periods. By allowing adjustments to take place for historical periods this proposal should provide a more robust platform going forward.

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

Implementation will require additional effort particularly from CSOs, who believe it will require significant resources. Other respondents believe it will help ensure compliance and the application of robust arrangements going forward.

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

Allows reconciliation to be carried out on a more accurate and equitable basis

Minimises cross subsidy through RbD

Provides a clear platform for enforcing and monitoring enduring arrangements going forward.

Disadvantages

CSOs believe they will have to allocate significant resources.

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

Representations were received from the following:

British Gas Trading	BGT	Support
EDF Energy	EDF	Support
energywatch	EW	Qualified Support
Envoy (IPL and QPL)	ENV	Not in Support
E.ON UK plc	E.ON	Support
GTC	GTC	Not in Support
National Grid Distribution	NGD	Support
National Grid NTS	NGNTS	Clarification Sought
Northern Gas Networks	NGN	Support
RWE Npower	RWE	Support
Scottish Power	SP	Support
Scotia Gas Networks	SGN	Support
Wales & West Utilities	WWU	Support

GTC and ENV believe that implementation of the Proposal will not benefit Shippers or Large Transporters but would require significant iGT resources. Both parties believe that xoserve possess the information required to apply neutral reconciliation and that an alternative solution is possible.

WWU believe that the issues raised by the iGTs are valid points “however they do not occur due to this Proposal and hence do not negate its merit”.

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

An amendment would be inserted under Part 5 of Annex A of the CSEP NExA to formally recognise this one-off arrangement.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

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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 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

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.

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks agreement from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Changes are not required to the UNC but changes would be inserted under Part 5 of Annex A of the iGT LDZ Unmetered CSEP NExA to formally recognise one-off arrangements.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
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