

Modification Report
Provisions for the Treatment of User Suppressed Reconciliation Values (USRVs)
for Terminated Users
Modification Reference Number 0721
Version 1.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

Where a User is terminated pursuant to Section V of Network Code, any outstanding USRVs as at the termination date would be deemed to have a reconciliation value of zero and the USRV would be deemed to be resolved.

In essence, the relevant Supply Points would incur Transportation Charges according to the NDM demand allocation process in absence of any subsequent reconciliation.

This provision would be applicable to terminated Users only. This is because a User wishing to pursue Voluntary Discontinuance under section V4.2 is obliged to resolve all its USRVs prior to ceasing to be a User.

2. Transco's Opinion

Transco's opinion is that this Modification Proposal should be implemented.

Larger Supply Points initially incur transportation commodity charges based on the NDM demand allocation process which are then subsequently 'reconciled' upon receipt of a meter read from meter/s at the appropriate Supply Point. Charges generated by such reconciliations are subject to validation as per the Network Code Reconciliation Suppression Guidelines and may be suppressed as a consequence.

Users are responsible for the resolution of certain suppressed charge items (prior to release onto an invoice) which are defined as User Suppressed Reconciliation Values ('USRVs'), commonly termed 'filter failures'. Where such items are the responsibility of a User which has been terminated (under the provisions of Network Code section V4.3) and the items remain unresolved, there is a requirement to mitigate (or eradicate) the risk borne by the Reconciliation by Difference ('RbD') community in respect of the unreconciled energy. Finalisation of transportation billing associated with such values mitigates the risk of the suppressed values remaining unresolved.

The risk of an unresolved suppressed item (which when resolved may result in a debit or credit value) in respect of a meter at a Larger Non-daily Metered Supply Point 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. Where a User is terminated, it is unlikely that USRVs for which it is responsible will be resolved by that User. In such circumstances, the current provisions of Network Code do not facilitate the satisfactory mitigation / eradication of the risk to both RbD Users and Transco.

Should such unresolved USRVs 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 would incur significant additional costs. Crucially, Transco does not have the necessary data to resolve suppressions which would require access to both the appropriate Meter Reading Agents and Meter Asset Managers.

The issues identified above and the proposed changes detailed in the 'Nature of Proposal' were discussed within the September 2004 Supply Point and Billing Workstream where broad support was forthcoming from attendees.

Should this Proposal not be implemented, in the rare event of a User Termination pursuant to Section V of the Network Code, RbD Users and Transco would continue to be exposed to the risk of unresolved USRVs. With the only party contractually able to resolve such items no longer party to Network Code, there is no prospect for resolution of the USRVs.

Such unresolved USRVs would remain outstanding and may distort future analysis of industry USRV resolution standards.

3. Extent to which the proposed modification would better facilitate the relevant objectives

The measure described within this Proposal is consistent with Transco's GT Licence Code Relevant Objective of the securing of the efficient and economic operation of its pipe-line system.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

No implications for the operation of the system have been identified.

b) development and capital cost and operating cost implications:

A small operating cost would be incurred to facilitate cancellation of all of the outstanding USRVs for the Terminated User.

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

Transco does not propose any additional cost recovery.

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

No such consequences have been identified.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Implementation of this Modification Proposal would not increase the level of Transco's contractual risk.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

No such cost has been identified.

7. The implications of implementing the Modification Proposal for Users

A level of certainty would be realised for Users operating within the RbD market in respect of the 'resolution' of USRVs for the Terminated User.

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

No such implications have been identified.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network 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:

- A level of certainty would be realised by Transco and Users in respect of outstanding USRVs for a Terminated User.
- The risk to RbD Users of unresolved USRVs for a Terminated User would be removed.
- USRVs unlikely to be resolved would be finalised.
- Industry resolution standards would not be prejudiced by outstanding USRVs for Terminated Users.

Disadvantages:

- The true value of the reconciliation would not be evaluated.
- Prior to actual termination, the User (or appropriate party representing the User) could choose to resolve those USRVs which would create a credit to the User in the knowledge that the remaining USRVs (likely to generate a debit to the User) would be 'cancelled'. The risks of such inappropriate behaviour occurring is, however, thought to be low.

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

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

Four respondents concur with Transco's view that the Proposal mitigates risk and increases certainty to RbD Users from unresolved USRVs for a Terminated User.

RWE Npower comments that *"while noting Transco's concerns with regards to Users choosing which USRVs that they resolve.....analysis that has been conducted shows no evidence of any substantial bias towards credits"* Npower further states that it *"would welcome any moves to monitor this process to ensure that there is no increase in bias in USRVs resolution occurring"*. Transco acknowledges and concurs with the opinion of the respondent. Transco intends to continue periodic analysis and reporting of behaviours in resolving USRVs.

E.ON UK comments that the *"Proposal seems a logical extension of Modification 637: Introduction of a financial incentive performance regime for the resolution of User Suppressed Reconciliation Values (USRVs)."* Transco agrees with the opinion of the respondent. It is Transco's view that the Proposal facilitates minimising the overall quantity of outstanding USRVs, a primary objective of Modification 0637. In addition it is worthy of note that the overall incentive cap identified within that regime would not be adversely influenced by the impact of a Terminated Users outstanding 'filter failures'.

Total Gas & Power Limited (TGP) identifies that the *"Code as it stands does allow USRVs to be reclassified as SRVs, but we feel that for sites which use the RbD mechanism, this is not cost effective and so a deemed resolution for all outstanding USRVs for a terminated User is preferable"*. Transco concurs with the respondent's view that, as referred to elsewhere within this report, it would not be economic and efficient for reclassification to occur. For the avoidance of doubt, the Network Code does not specify that USRVs may be reclassified as SRVs. Section 5.3 of the Network Code Reconciliation Suppression Guidelines (V3.2) solely identifies circumstances where an SRV may be reclassified as a USRV.

EDF Energy notes a concern that *"the potential impact of these filter failures on a new supplier, when they take these sites over"*. EDF expresses a view 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's view is that the procurement of accurate opening meter reads and timely updating of meter asset data is desirable in any circumstances involving registration of a Supply Point. Transco would also comment that the incoming User in these circumstances would not bear any risk with respect to any previous charge suppression which may have previously existed.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation is not required to facilitate such compliance.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

This Modification Proposal is not required to facilitate any such change.

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco would be required to implement a manual process to trigger and action cancellation of outstanding USRVs for a Terminated User when such Termination occurs.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco would be able to implement this Modification Proposal with immediate effect should a direction to implement be received from the Authority.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal be implemented.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

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

19. Text

SECTION E

Daily Quantities, Imbalance and Reconciliation

Add new paragraph 8.1.5 to read as follows:

"8.1.5 Where a Termination Notice has been submitted to a User pursuant to Section V4.3, all User Suppressed Reconciliation Values for such User which are outstanding at the User Discontinuance Date or are subsequently created after the User Discontinuance Date shall be cancelled and deemed to be void *ab initio* and no further Reconciliation Values for the Meter Reading Periods to which the User Suppressed Reconciliation Values related shall be invoiced and payable."

Signed for and on behalf of Transco.

Signature:

Declan McLaughlin
Commercial Manager, Customer Service
Support Services

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0721**, version **1.0** dated **22/12/2004**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.