

Direct Dial: 0171-932-6333

7 November 2000

UK Transco, Shippers and Other Interested Parties

Your Ref:
Our Ref : Net/Cod/Mod/385

Dear Colleague,

Modification Proposal 0385: Standard of Service on Adjustments to GRE Invoice Queries

Ofgem has considered the issues raised in modification proposal 0385: 'Standard of Service on Adjustments to GRE Invoice Queries'. Ofgem has decided to direct UK Transco to implement the modification, because we believe that the proposal will better facilitate the relevant objectives of Transco's Network Code.

In this letter, we explain the background to the modification proposal and give our reasons for making our decision.

Background to the proposal

The modification proposal was raised by a shipper that identified the need to incentivise Transco to resolve and adjust valid shipper disputed Gas Reconciliation Energy (GRE) invoice queries in a timely manner.

Modification 204 "Amendments to Standards of Service" was implemented last August which introduced a revised set of standards to which Transco now operate to. However, no standard relating to GRE invoice queries was included as part of these standards.

At present, when a shipper queries a reconciliation invoice, whilst it can make with-holdings against the Transportation Reconciliation Energy (TRE) element of the charge, this is not permitted against the GRE element. Also, any interest accruing on such overpaid GRE amounts is borne by the shipper community via neutrality, hence Transco is neutral to the impact of delays in processing queries and shippers have no way to mitigate the financial loss associated with the cashflow issues on erroneous charges.

The modification proposal

Where a GRE invoice query identifies an overpayment of GRE charges, Transco will make a liability payment if the financial adjustment is not processed within the agreed timescales.

All GRE Invoice Queries raised by Users are in scope for the incentive regime, except Non Daily Metered (NDM) read Invoice Queries created exclusively by NDM Meter Reads as supplied by Users to Transco. Any valid asset related GRE Invoice Query associated with a Meter Read raised by a User will be included within the scheme.

The service standard for processing the financial adjustment will be the end of the third month following the month the query was received. The payment for a failure of the standard will be calculated by using rates set out in the GRE Invoice Query Incentive Table. This table splits the payments into four bands reflecting the size of the query. It is understood that the majority of queries are low in value and high in volume and therefore those queries which are under £200 are subject to an extra deadband period.

The liability payment will be offset against the interest billed to the community via smearing. Any incentive payment made by Transco to shippers will be aggregated on a monthly basis and shared amongst shippers using the relevant months User Daily Quantity Inputs (UDQI's) and Outputs (UDQO's).

This proposal refers to queried GRE invoice charges and does not refer to primary reconciliation.

Liabilities paid by Transco under this proposal will be subject to the provisions of the current service standard regime introduced under modification 0204, "Amendment to Standards of Service". It is proposed that this liability should be included within sub cap B (£20 million per annum) as this contains standards for customer operation related activities.

Respondents' views

There were three industry representations, all of which were in favour of the modification proposal.

Ofgem's view

Ofgem acknowledge the positive manner in which the industry has co-operated in developing this modification proposal. Shippers' concern over the need for a standard for dealing with GRE invoice queries appears to be addressed by this modification.

However, Ofgem have a number of concerns relating specifically to this modification and to the present structure of Transco's service standards.

The proposal has highlighted the need for Transco to establish an agreed process by which the structure of the standards and the existence of the caps and sub-caps can be modified or adjusted to reflect the development of the market. Ofgem also believe it appropriate for Transco to justify the existence of the caps and sub-caps and hope this can be addressed under their review of the existing standards currently being undertaken. Ofgem seek clarification from Transco on this matter.

In Ofgem's acceptance letter for modification proposal 204, dated 20 July 1999, we stated that "...we believe it essential that new standards are given new sub-caps in order to retain the efficacy of the existing sub-caps." Ofgem's view remains unchanged, in principle. However, Transco's performance since the standards were introduced in August last year has been such that the sub-caps have not been challenged. As a result, we do not believe that the implementation of this modification will in the short term undermine the efficacy of the existing sub-caps.

It is proposed that the legal text relating to this modification be placed in the Transitional Document with an end date of 5 February 2002. Transco's view is that the proposal's transitional arrangement is appropriate, partly because the contractual responsibility for unbundled metering activities is due to alter. Notwithstanding this, Ofgem's preference would have been for the legal text to go into Code to ensure consistency with the other shipper

standards introduced under modification 204. We, therefore look to Transco for reassurance that, when appropriate, all shipper standards, including the one proposed under this modification will be reviewed.

A final concern relates to the fact that the methodology for this modification is not included in code, only referenced within. Whilst Ofgem agree that the use of examples can assist Users understanding of the methodology, they should not be used as justification for not putting methodology in code. Indeed, Ofgem's preference is for the methodology, wherever possible, to be included in code to ensure that it clearly forms part of the contract between shippers and Transco.

Ofgem's decision

Taking the above considerations into account, Ofgem has decided to instruct Transco to implement this modification to its network code. Despite some concerns, Ofgem's view is that this modification will better facilitate the relevant objectives as set out in standard condition 7 of the PGT licence, in that it will incentivise Transco to operate more efficiently.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Lisa Hughes
Head, Network Operations