

CODE MODIFICATION PROPOSAL No. 0117
“Amendment to Invoice Billing Period”
Version 2.0

Date: 27 October 2006

Proposed Implementation Date: 24 October 2006

Urgency: Urgent

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

EDF Energy requests that the Authority determines that this modification should be classed as Urgent on the basis of an imminent date related event and a significant commercial impact upon Shippers and Consumers. It is proposed that this modification be implemented before 25 October 2006, i.e. before the earliest date that an invoice can be issued for the recent South East Local Distribution Zone Reconciliation by Difference issue. Failure to implement this proposal before that date, thus allowing the invoice to be raised on that date, would result in a significant unreasonable commercial impact to Shippers active in this area and Consumers in general.

Nature and Purpose of Proposal (including consequences of non-implementation)

This modification proposes to limit the period in respect of which a demand for payment can operate retrospectively to no more than ~~two years~~ **twenty six (26) months** from the date on which the relevant invoice is issued. For clarity we do not propose that this modification should impact on the invoice query processes detailed in Section S of the Transportation Principle Document or the processes for dealing with Surpressed Reconciliations. We are therefore proposing that once an invoice has been raised the invoice query process, as detailed in Section S, should be allowed to run its full course without impacting on the duration that the original invoice was raised for. EDF Energy also proposes that in instances when a meter read is surpressed by the Transporter, the notification of said surpression, will act as a marker, so that when the issue is resolved the invoice will be able to go back twenty six (26) months from the date the notice of surpression was received. For example if a User submitted a meter read on 26 October 2006, and received notification that the read had been surpressed on 28 October 2006, but failed to resolve the issue until 28 October 2008, then when the invoice was finally issued it should be able to go back to the period 28 August 2004 if required.

Background to Proposal

On 24 August 2006, the industry was notified of a meter error that had occurred for a six year period between 13 July 1999 and 30 June 2005, in the South East area that had gone undetected despite the meter undergoing regular annual validations. The result of this error was that 2.4TWh of gas had not been metered, resulting in proposed invoices totalling £25.6m being raised on all the domestic shippers that are currently active in the SE LDZ. This will represent a significant cost to the shippers in that area, even though the majority of them were not active in this area for the entirety

of this period, that they will only be able to recover through their tariffs. This will neither be cost reflective nor represent efficient practice because:

- Shippers will be attributed a proportion of this cost dependent on their current market share in the South East LDZ, even though the majority were not active in this area for most of the period covered by the reconciliation process.
- The cost of this reconciliation will be recovered from customers in general, as this charge represents an additional cost to shippers who have not necessarily been active in this local market over the period, and so have not billed customers for the consumption of this energy.
- The current ability for Transporters to raise an invoice that is not time limited clearly provides no incentive to ensure that they are operating the pipeline in an economic and efficient manner, and that their meters are reading accurately.

Amending the back billing period to no more than ~~two years~~ twenty six (26) months will overcome these discrepancies and align the invoice processes for Transporters with those currently employed within the supply community.

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

Implementation of this proposal will better facilitate the relevant objectives:

Standard Special Condition A11.1 (a) – the efficient and economic operation of the pipeline system. By providing Transporters with an incentive to ensure that their meters are accurate, they will be able to identify the flows that are actually occurring on their system and so take balancing actions that are actually required, and not ones based on an erroneous view of the supply/demand fundamentals on their system. Furthermore, by encouraging meter accuracy this modification will ensure that costs are targeted at those who accrue them, rather than at those who carried no responsibility for their accrual.

Standard Special Condition A11.1 (b) – the coordinated, efficient and economic operation of (i) the combined pipe-line system and (ii) the pipe-line system of one or more other relevant gas transporters. By providing Transporters with an incentive to ensure their meters are accurate Transporters will be able to develop a more accurate view of their pipe-line systems and so take balancing actions and investment decisions based on this view rather than one based on their perceived flows. Going forward, this will ensure Gas Distribution Networks' exit bookings and interruption capacity purchases reflect their actual requirements rather than misinformed perceptions.

Standard Special Condition A11.1 (c) – the efficient discharge of the licensee's obligations under their license in relation to security of supply. By not knowing accurately what the flows into or out of their system are, Transporters are unable to identify what the actual demand/supply balance on the system is. By incentivising meter accuracy this modification will ensure that the licensees are able to undertake balancing actions when required, and ensure that security of supply is maintained through numerous market signals. Furthermore, Transporters will currently be taking investment decisions to meet their own security of supply requirements based on their views of demand on their system, which will be driven by the historical flows on their systems. If these flows are not accurate then they will not be taking the investment

required to meet their objectives. Accurate meters should ensure that Transporters develop an accurate view of their system and that their security of supply conditions are met.

Standard Special Condition A11.1 (d) – the securing of effective competition (i) between relevant shippers and (ii) between relevant suppliers. The modification will better facilitate this objective by ensuring that costs are targeted at those who actually accrue them, and not those who are active in the market years after the event.

Standard Special Condition A11.1 (e) – the provision of reasonable incentives for relevant suppliers to secure that the domestic customer supply standards are satisfied as respects the availability of gas to their domestic customers. The modification will better facilitate this objective by ensuring that demand levels provided by National Grid are based on accurate meter reads, and not an inaccurate view of the flows within the system.

Standard Special Condition A11.1 (f) – the promotion of efficiency in the implementation and administration of the Uniform Network Code. The modification will better facilitate this objective by ensuring adequate incentives are in place to ensure that the licensees meet the requirements laid down in the UNC Offtake Agreement Document Section D2.

Advantages of the Proposal

- Incentivises improved meter accuracy for flows on to and off of the total system because it exposes Transporters to financial risks of foregone revenues arising from erroneous meter readings which they are best placed to manage.
- Improved security of supply as balancing actions and investment decisions are based on accurate data flows.
- Costs will be more accurately targeted at those who accrue them because the AQ proportions will be more reflective of actual market share in the previous two years
- Transfers contractual risks to those who are best placed to manage them.

Disadvantages of the Proposal

- There is a risk that if meters are inaccurate for periods of time longer than two years costs will not be targeted at those who accrue them. However, this would result from a failing by the Transporters and so it could be argued that they should be liable for these costs.

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

The Proposer believes that this Modification Proposal would improve security of supply, as already discussed.

The implication for Transporters and each Transporter of implementing the Modification Proposal, including

i. Implications for operation of the System

Implementation of this Proposal would ensure that any actions required for the operation of the system would be based on actual flows within the system and so will have a positive impact.

The Proposer recognises that the Transporters may need to revise their operational practices to ensure that their meters are reading accurately. However, as these requirements are already covered by Section M, we do not believe that these costs should be significant, or attributed to the implementation of this proposal.

ii. Development and capital cost and operating cost implications

None identified

iii. Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs

None identified. However, given that implementation of this proposal would also facilitate achievement of UNC Offtake Agreement Document Section D2, it would not seem appropriate for any unidentified costs to be recovered.

iv. Analysis of the consequences (if any) this proposal would have on price regulation

By limiting the period which invoices cover, this proposal will ensure that Transporters do not collect revenues that span more than two price control periods. This will ensure that any incentives/revenues set within these price controls are maintained and do not have to be re-opened and investigated significantly after the events.

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

It is recognised that some contractual risk may be transferred to Transporters as they would be unable to issue invoices going back for longer than two years. However in relation to metering errors and raising timely invoices it is the Transporters who are best placed to manage these risks, as they are responsible for metering and raising invoices.

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 System and related computer systems of each Transporter and Users

None identified

The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

This proposal would result in the Transfer of some contractual risk from Users to Transporters, as under the current regime Users have an agreement not to issue a retrospective invoice that goes back more than two years, but are open to the risk that Transporters can raise an invoice for any period that they wish. Users, however, have no way of mitigating these risks as responsibility for metering and raising accurate invoices is held by the Transporters. This modification would overcome this discrepancy by transferring these risks to those that are best placed to manage them.

The Proposer believes that this modification should be implemented prior to 25 October 2006, to ensure that incentives are in place on Transporters to facilitate their relevant licence conditions prior to this winter.

Implementation Timescale

Implementation should take place prior to 25 October 2006. However EDF Energy recognises that in order to accommodate some of the system developments associated with this proposal, a phased implementation approach may be a more acceptable solution.

Code Concerned, sections and paragraphs

UNC TPD Section S

Proposer's Representative

John Costa (EDF Energy)

Proposer

Stefan Leedham (EDF Energy)

Signature

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