

TRANSCO REVIEW GROUP REPORT

"To Review the Network Code rule on withholding of Energy payments under dispute and to consider circumstances where Withholding of Energy Charge is appropriate"

Version 1.0

Review Group

Supply Point & Billing Workstream Report

Summary

At the first of the three Review Group meetings held, BGT outlined its Proposal which sought to review the circumstances under which it might be appropriate to withhold payment on LDZ reconciliation energy balancing charges, if a legitimate dispute had been identified and there was no exposure to the wider community. Following discussions about the existing principles for the payment of GRE charges and potential circumstances for withholding GRE charges the group focussed on developing a process for pre invoice notification and resolution of queries prior to invoice production. This later developed as the preferred option and the way in which it is envisaged that this will work is set out in the process flow diagram and the accompanying procedure appended to this report.

Introduction

Under the current terms of the Network Code, Users are not permitted to withhold payment of any energy balancing charges. In August 2003, BGT raised Modification Proposal 0642: Withholding of Energy Charge where LDZ Reconciliation has been disputed. This proposed amending various clauses within the Network Code, allowing Users to withhold the energy element of a reconciliation charge where a valid dispute has been raised and not resolved. It was proposed that in the event of a correction of a misallocation of energy, caused by an LDZ reconciliation, the Network Code requirement for a User to pay the energy element of the charge in full even when a valid dispute is raised, would not be applied.

Ofgem agreed with the Proposer that "the procedures around energy reconciliations would benefit from a review, especially where there is a significant readjustment or long term retrospection involved, given the impact this may have on Users' forecasts and immediate cash flows". Ofgem also stated, that "Whilst significant and unforeseen energy reconciliations can reduce certainty for both the GT and Users, it is correct that energy balancing revenues be adjusted in light of better information about the actual off-take of gas.

Ofgem decided not to consent to Modification Proposal 0642 and supported the establishment of Review Group 0643. This group was established and met for the first time in December 2003.

The following timetable details the main process events for Review Group 0643:

Review Group Meetings: 4th December 2003, 16th January 2004 & 4th March 2004.

Process flow and procedure finalised April 2004.

Final report to the Network Code Modification Panel Meeting April 2004.

The proposals developed include:

- detailed notification to Users, via the Billing Operations Forum distribution list and to the NT&T RGTA Workstream members, of all energy adjustments over an agreed threshold (individual LDZ Reconciliations exceeding 50 GWh or aggregate LDZ Reconciliations where the costs exceed £1M);
- a period giving a minimum of 15 days notice prior to the reconciliation invoice release;

and if necessary:

- a five day period for Users to raise queries;
- five days for Transco to respond;
- a further five days for any outstanding User queries;
- referral to the Billing Operations Forum;
- referral to an independent expert;

lastly:

- an acceptance that the expert's determination is final.

The aim of these proposals is to formalise the communication procedure prior to invoice production for LDZ reconciliations. The process allows Users to make their representations to NGT and in the unlikely event that resolution of queries cannot be achieved the case will be referred to an independent expert. The review group agreed that every attempt should be made to resolve issues without the need to refer to an independent expert. However, should an expert need to be appointed, this process will be time bound to avoid unnecessary delays. It was also recognised that the process should result in a reduction in invoice disputes, as questions/issues may already have been resolved.

Conclusions

The group concluded that adoption of this procedure by Transco and adherence to the procedure by all parties would assist in the resolution of disputes prior to the production of an invoice.

Recommendations

The Review Group recommends adoption of the procedure entitled 'LDZ RbD Reconciliation Notification Process' appended to this report.

Please note that this document is held by Operations & Trading as Version 1

LDZ RbD Reconciliation Notification Process

It has been identified through the Network Code Review Group 0643 that there is a requirement to formalise and improve the LDZ RbD Reconciliation Notification Process. This procedure and accompanying Process Flow Diagram reflects the new process which will be adopted from 1st April 2004.

The trigger for the start of the LDZ RbD Reconciliation Notification Process is when NGT Operations & Trading receive a Meter Error Report (MER) informing NGT of the identification of a metering error which affects one or more LDZs. Operations & Trading then calculate whether the metering error identified represents over 0.1% of the end of day Offtake quantity for any given gas day (Credit or Debit to Shippers). If the error represents less than 0.1% no reconciliation will be made. If the error exceeds 0.1% then an estimate of both total energy and total price will be calculated, based on the figures provided in the MER. Note: this estimate may well change before the reconciliation invoice due to further checking prior to invoice production.

If the total energy for an individual LDZ Reconciliation is less than 50 GWh, and the aggregate LDZ Reconciliation costs do not exceed £1M, the total energy and costs will be calculated and forwarded onto Billing Operations, who will process the adjustment within RbD charges on the next available Reconciliation Invoice. Note: the invoice preparation cycle means that adjustment requests received after the 5th working day of the month are included on the invoice to be issued on the 18th business day of the following month.

However, should the total energy for an individual LDZ Reconciliation exceed 50 GWh or the aggregate LDZ Reconciliation costs exceed £1M, an e-mail will be sent to Billing Operations detailing the following:

- The LDZ(s) affected by the reconciliation
- The total estimated energy value in GWh
- The total estimated financial value in £m
- The start and end date of the reconciliation
- A brief description of the issue
- An estimate of the invoice processing date

Billing Operations will send this information to all RbD Shippers via the Billing Operations Forum distribution list and to the NT&T RGTA Workstream members giving a minimum of 15 days notice prior to the reconciliation invoice release. The Shippers will then have 5 days to submit a response to Billing Operations, detailing any questions or concerns they have regarding the proposed reconciliation.

Should Billing Operations receive no objections, the total energy and cost will be calculated and included on the next available Reconciliation Invoice. In the event that any Shippers challenge the proposed reconciliation, Billing Operations will inform Operations & Trading who will have

5 business days to respond to all the Shippers' queries. On receipt of NGT's response the Shippers then have a further 5 business days to respond to Billing Operations should they have any outstanding queries.

If the Shippers are satisfied with Operations & Trading's response, as before, the total energy and cost will be calculated and issued via the Reconciliation Invoice. However, should any Shipper(s) feel that the response does not fully satisfy their query, the adjustment will be delayed until after the next Billing Operations Forum.

At the next Forum meeting, initially NGT will present their case for the proposed reconciliation. This will be followed by the relevant Shipper(s) addressing the forum with their concerns, with respect to the proposed reconciliation. The nature of the Shipper(s) enquiry must be of the form determined by the 'Standard of Service Query Management Operational Guidelines'. Once both parties have presented their case, and any remaining questions have been answered, Shippers will then be asked to vote for or against proceeding with the reconciliation. Any Shipper choosing not to attend will not have an opportunity to vote, as written correspondence will not be considered acceptable.

If one or more Shippers have no objection to the reconciliation, NGT will proceed with issuing the Reconciliation Invoice. Shippers must have a market share in the affected LDZ(s) on the most recently issued Reconciliation Invoice for their vote to be considered.

If Shippers with a market share in the affected LDZ(s) are unanimously against proceeding with the reconciliation then an expert will be appointed to resolve the issue. NGT will advise Shippers of the identity of the company which will undertake the work and Shippers have 5 business days to respond to NGT if they wish to recommend an alternative expert. The expert will be required to produce a report on their findings, which will be issued to all stakeholders. These findings will dictate whether or not the adjustment will be progressed. Shippers and NGT will have the opportunity to challenge the expert, however, the expert's judgement is binding on both Shippers and NGT.

There are three possible outcomes as a result of the expert determination:-

1. The expert's findings reveal that NGT's assessment was correct and a reconciliation is needed: the total energy and total cost will be calculated and invoiced.
2. The expert's findings reveal that NGT's assessment was incorrect and no metering error was present. No reconciliation would be required: the issue would be closed and no reconciliation would be made.
3. The expert's findings reveal that NGT's assessment was incorrect but that a metering error was still present. A reconciliation would be required but the total energy and costs would be re-calculated based on the expert's assessment. This would result in either an increase or decrease to the reconciliation charges.

The entire process from issuing advance notification to Shippers of the proposed reconciliation through to the end of the process will not exceed four months in total.

Network Code Development

0643 : To Review the Network Code rule on withholding of Energy payments under dispute and to consider circumstances where Withholding of Energy Charge is appropriate v1.0

LDZ RbD Reconciliation Notification Process

