

## Stage 04: Final Modification Report

# 0398:

## Limitation on Retrospective Invoicing and Invoice Correction (3 to 4 year solution)

At what stage is this document in the process?



This modification seeks to reduce the reconciliation window so that it is set at a minimum of 3 years and a maximum of 3 years and 364 days.



Panel recommended implementation



High Impact: None



Medium Impact: Shippers, National Grid Shrinkage Provider



Low Impact: Gas Distribution Networks, National Grid NTS

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## About this document:

Having considered the Final Modification Report, Ofgem have directed the UNC Modification Panel to expand upon the analysis and supporting information, please see the Ofgem letter at [www.gasgovernance.co.uk/03950398](http://www.gasgovernance.co.uk/03950398) for further background.

This document is a revised Final Modification Report, to be presented to the Panel on 19 July 2012.

The Authority will consider the additional analysis and supporting information and decide whether or not this change should be made.



3 **Any questions?**

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## 1 Summary

### Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

### Why Change?

Under the current UNC rules (as implemented by modification 0152V on 01 April 2008) all retrospective invoices are limited to a period between 4 years to 4 years and 365 days. The rules behind 0152V were developed as part of modification review group 126, and at the time there was a view within industry that the timeline for reconciliations should be shortened further. However, there was reluctance to bring this forward at the time as this was perceived to be too large a step for industry and experience of working with a 4-5 year model was required. The industry has now had over 3 years experience of working with a 4-5 year reconciliation window and recent data presented to 28 April 2011 Distribution Workgroup has demonstrated that reducing the window further would not have a material impact on energy allocation. Reducing the reconciliation window would; however, reduce the risk exposure of Shippers to large and unexpected bills.

### Solution

The proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-3 years. At this point, the retrospective billing period will be 3 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-3, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 3 years 364 days by close of business on 31 March y+1.

Come the following 1 April, the backstop date will be advanced by 1 year, resetting the retrospective billing period to 3 years 0 days.

### Impacts and Costs

Initial discussions with Xoserve have suggested that this proposal could be implemented for minimal (if any) cost, provided that it coincided with the annual re-setting of the backstop date – i.e. 1 April.

Modification 0395 seeks to amend the limitation period to 2 to 3 years. This will have an impact on processes such as the 2 year meter inspection Supplier obligation and also on USRVs (as the process allows for them to be unresolved for up to 30 months). There may be other impacts from Modification 0395, which will be assessed by the relevant Workgroup.

The Workgroup have not identified any UNC (or other) process that would be significantly impacted by the implementation of this proposal. The Workgroup have considered the Theft of Gas and Offtake Meter Errors processes but have not identified any significant impacts that would prevent implementation in April 2012.

### Implementation

Proposed implementation dates are:

- 01 April 2012 if a decision is received prior to 01 March 2012
- 01 April 2013 if a decision is received prior to 01 March 2013



### Why is RbD a risk?

*In order to manage their risk Shippers tend to hedge their gas requirements. However, in order to hedge against price risk the volume must be known. The volume of RbD on a monthly basis is not known and so it is not possible to hedge effectively against this.*

- If a decision is received after 01 March 2013 implementation should occur in the following April.

Modification 0395 has a proposed implementation date (for the change to the back stop date element) of April 2013, this modification offers a suitable transition from the current 4-5 year billing period down to a 2-3 years (if Modification 0395 is also implemented).

## **The Case for Change**

When UNC Review Group 0126 was discussing the concept of a line in the sand there was always an aspiration that this would be reviewed at a later date to see if a further reduction was feasible/suitable. This modification along with Modification 0395 will allow for such a review to take place.

This modification would also reduce the risk exposure to Shippers who are currently exposed to retrospective invoices of up to 5 years, although most have agreed not to back bill customers by more than 1 year. Reducing the risk to which Shippers are exposed will be beneficial to competition amongst Shippers.

## 2 Why Change?

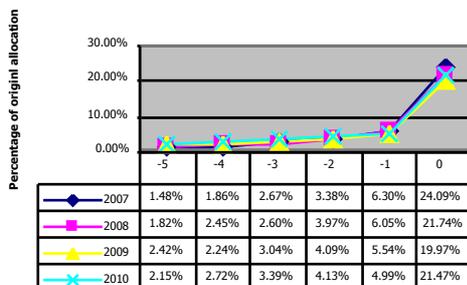
### UNC Modification 0152V

Under the current UNC rules (as implemented by Modification 0152V on 01 April 2008) all retrospective invoices are limited to a period between 4 years to 4 years and 365 days. The rules behind 0152V were developed as part of Review Group 0126, and at the time there was a view within industry that the timeline for reconciliations should be shortened further. However, there was reluctance to bring this forward at the time as this was perceived to be too large a step for industry and experience of working with a 4-5 year model was required. The industry has now had over 3 years experience of working with a 4-5 year reconciliation window. Given that the industry has had time to get used to working with a 4-5 year window it would appear appropriate to look to shorten the window further to provide additional financial certainty to Shippers.

### Un-reconciled Energy

At the 28 April 2011 Distribution Workgroup, Xoserve provided data that demonstrated that reducing the window further may not have a material impact on energy allocation. An extract of the data that was presented is shown below in Table 1. It is worth noting that although this energy has not been reconciled this does not mean that it has been mis-allocated – only that a meter reading has not been provided to confirm correct allocation. Reducing the reconciliation window would therefore have a minimal impact on energy allocation but would reduce the risk exposure of Shippers to large and unexpected bills.

Table 1: Percentage of un-reconciled energy



### Risk Reduction

Although the volume of unallocated energy is relatively small after 2/3 years, Shippers remain exposed to the risk that they will be exposed to a large unexpected debit. This risk will carry a risk premium that ultimately will have to be born by customers. Reducing the risk exposure of Shippers and Suppliers will reduce a potential barrier to entry, thereby benefitting competition.

## 3 Solution



### Why not adopt a 2-3 year model as proposed by Modification 0395?

*Following Workgroup discussions it may be determined that a 2-3 year model should be adopted. However, if this is not the case, or if it cannot be implemented for 1 April 2012, then we believe the 3-4 year model could be implemented in April 2012. This would still allow for the 2-3 year model to be implemented in April 2013 if appropriate.*

The proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-3 years. At this point, the retrospective billing period will be 3 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-3, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 3 years 364 days by close of business on 31 March y+1.

Come the following 1 April, the backstop date will be advanced by 1 year, resetting the retrospective billing period to 3 years 0 days.

This limit will cover all retrospective Transporter to Shipper transactions and visa versa. It is the intention of this proposal that:

- The 3-4 year model (applying the 3 yrs 0 days to 3 yrs 364 days period of retrospection, as set out above) should apply from 1/4/2012.
- The 3-4 year model will apply equally to Transporter debits and credits.
- This proposal applies to all Transporter to Shipper and Shipper to Transporter transactions governed by the UNC.

### Compatibility with Modification 0395

Modification Proposal 0395 proposes that the existing 4-5 period is reduced to 2-3 years. The proposed implementation date (for the back stop date element) of Modification Proposal 0395 is April 2013. Modification Proposal 0398 (the 3-4 year model) could be used as a transitional arrangement between, April 2012 and March 2013 (i.e. implement modification proposal 0398 in April 2012 and then 0395 in April 2013).

## 4 Relevant Objectives

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	See below.
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code	See below.
g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	None

### **Achievement of relevant objective (d) "the securing of effective competition between Shippers"**

Some Workgroup members considered this modification reduces risk to Shippers/Suppliers. Results in greater shipper confidence in gas volumes being metered and billed for, thereby increasing incentives on shippers to balance their positions. Improves ability to set prices across whole market and reduces barriers to entry for Shippers/Suppliers, therefore improves competition.

Some Workgroup members considered the modification is likely to cause a greater discrepancy between the UNC and Statute of Limitations, therefore preventing Shippers backing off costs within customer contracts.

Corona Energy believe there is a significant risk that this modification presents to competition in the larger end of the I&C sector from suppliers being prevented from reflecting customer billing corrections in settlement for a much greater period than current. Increasing the risk in a certain sector of the market to benefit another will jeopardise competition.

GDF SUEZ believes modification 0398 would detrimentally affect competition between shippers and suppliers and hence is contrary to SLC 11.1 (d). The additional risks placed on the LSP sector are disproportionate to those shipper/suppliers who are active only in the LSP sector and any arising costs cannot be diversified. Only shipper/suppliers who are active in the Domestic market will benefit from this modification. This will provide a disincentive to existing companies competing in the

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LSP sector and will deter new entrants.

**Achievement of relevant objective (f) “*promotion of efficiency in the implementation and administration of the Code*”**

Some Workgroup Members considered all industry parties may see minor reductions in costs due to a reduction in reconciliations. The 3 year model gives sufficient time to reconcile all reconcilable sites (some sites will never reconcile as they no longer exist – no matter the length billing period). Xoserve data presented at the Distribution Workgroup meetings highlights a significant drop in un-reconciled energy well before the cut-off date.

However, other Workgroup Members considered a shorter timescale to resolve issues may reduce the rigor applied to reconciliations. Though some Workgroup Members felt this provides certainty in contractual position within UNC, some others did not agree with this position.

## 5 Impacts and Costs

### Consideration of Wider Industry Impacts

None identified.

### Costs

Initial discussions with Xoserve have indicated that they update the backstop date every year, which is a manual process and requires some system testing. Provided that this modification is implemented in line with the annual update it is expected that the only impact will be a requirement to conduct some additional testing. It is not expected that these costs will be material.

Indicative industry costs – User Pays	
Classification of the modification as User Pays or not and justification for classification	
This is not a User Pays Modification, as it will not create any User Pays Services or Charges.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
n/a	
Proposed charge(s) for application of Users Pays charges to Shippers	
n/a	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
n/a	

### Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>None</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>Slight variation to an existing annual process (year 1 only)</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>None</li> </ul>

## Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

**0565 Transco Proposal for Revision of Network Code Standards of Service** at the

following location:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Users	
Development, capital and operating costs	<ul style="list-style-type: none"> <li>None</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>Some Users consider implementation of this modification will increase their financial exposure through supply contracts. Others disagreed with this view.</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>None</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>None</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>None</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>None</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>None</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>None</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>None</li> </ul>
General administration	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code	
Code section	Potential impact
General Terms – Section C	<ul style="list-style-type: none"> <li>Update of definition of Cut Off Date</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact

Impact on UNC Related Documents and Other Referenced Documents	
Network Entry Agreement (TPD I1.3)	• None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	• None
Storage Connection Agreement (TPD R1.3.1)	• None
UK Link Manual (TPD U1.4)	• None
Network Code Operations Reporting Manual (TPD V12)	• None
Network Code Validation Rules (TPD V12)	• None
ECQ Methodology (TPD V12)	• None
Measurement Error Notification Guidelines (TPD V12)	• None
Energy Balancing Credit Rules (TPD X2.1)	• None
Uniform Network Code Standards of Service (Various)	• None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	• None
Gas Transporter Licence	• None

Other Impacts	
Item impacted	Potential impact
Security of Supply	• None
Operation of the Total System	• None
Industry fragmentation	• None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• None

Corona Energy have provided evidence to demonstrate that the level of costs associated with this proposed change could significantly impact the costs incurred by smaller independent shippers active in the LSP sector which they will be unable to hedge through obtaining a domestic portfolio of similar size. The evidence shows that the level of cost this modification could place on such suppliers would be unsustainable and implementation would therefore result in the reduction of competition.

## 6 Implementation

Proposed implementation dates are:

- 01 April 2012 if a decision is received prior to 01 March 2012
- 01 April 2013 if a decision is received prior to 01 March 2013
- If a decision is received after 01 March 2013 implementation should occur in the April the following year subject to 30 days' notice.

Some Workgroup Members were concerned that an implementation decision during March 2012 would not provide sufficient warning to prepare for changes in Shipper systems during April 2012.

The Workgroup considered that there may be merit in asking respondents to state their preferred implementation timescale in representations.

In its representation, Wingas displayed a specific and immediate concern regarding the timescales to implementation (intention being April 2012), pointing out that in its view an April 2012 implementation date would not give Wingas and others in the market (including Xoserve) sufficient time to analyse their entire portfolio and query/resolve any billing anomalies before the period is cut off.

## 7 The Case for Change

In addition to any referred to above, the following have been identified:

### Advantages

None identified.

### Disadvantages

There may be quantities of energy in excess of those currently identified as part of meter errors, which may not be reconciled correctly due to timing out.

The modification may result in additional queries raised by Shippers attempting to resolve queries in the new restricted billing period.

## 8 Legal Text

### Legal Text

The Workgroup assessed the following Text:

#### **UNIFORM NETWORK CODE – GENERAL TERMS**

#### **SECTION C – INTERPRETATION**

*Amend the definition of "**Code Cut Off Date**" as follows:*

#### *Changed marked version*

"**Code Cut Off Date**" means, in relation to any Day within a Formula Year (t), the Code Cut Off Date is 1<sup>st</sup> April in Formula Year t-4~~3~~

#### *Clean version*

"**Code Cut Off Date**" means, in relation to any Day within a Formula Year (t), the Code Cut Off Date is 1st April in Formula Year t-3

## 9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
Corona Energy	Not in Support
EDF Energy	Support
E.ON UK	Support
First Utility	Not in Support
Gazprom Marketing & Trading Retail	Not in Support
GDF SUEZ	Not in Support
National Grid Distribution	Support
National Grid NTS	Neutral/Comments
RWE npower	Not in Support
Scotia Gas Networks	Support
Shell Gas Direct	Not in Support
SSE	Support
Total	Not in Support
WINGAS UK Ltd	Not in Support
Wales & West Utilities	Support

Of the fifteen representations received six supported implementation, one provided comments and eight were not in support.

### Summary Comments

Corona Energy are not in support of this modification as it is likely to substantially impact on competition in the LSP sector. Further, reducing the current reconciliation period greatly increases the length of time where any customer billing correction going back to the statute of limitation limit (six years in the Limitations Act 1980) could not be reflected in settlement, from a period 1-2 years to a period of 2-3 years (Modification 0398) or 3-4 years (Modification 0395). LSP shippers are unable to manage this risk either through their consumer contract (as legally unenforceable) or via a 'domestic portfolio hedge'. It therefore substantially increases the risk of small suppliers with larger I&C customers to incur unaffordable costs through bill corrections that cannot be mitigated in settlement. As in these circumstances the exposed Shipper is paying for gas that should correctly have been allocated via RbD to the SSP sector, both of these modifications 0395 and 0398 effectively transfer risk from the SSP sector to the large LSP NDM and DM sectors.

Corona Energy highlight that the Workgroup Report has not sufficiently considered the impacts on smaller shippers, the risk to competition in the larger end of the I&C sector and the valid reasons for the adjustment of LSP meter reads for periods greater than 2-3 years which are outside the reasonable control of the Shipper. They explain

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that English law provides parties six years to claim for errors so it is not clear as to why it is considered beneficial and appropriate to restrict in this particular instance.

A number of representations highlight concerns with the reconciliation, the lack of parity with The Statute of Limitations Act 1980, and the risks and exposure on the LSP Sector to large bill corrections without the ability of reflecting this in settlement.

EDF Energy believe the evidence presented to the workgroup on this topic has clearly demonstrated that reducing the reconciliation window will not have a material impact on energy allocation, whilst providing a benefit to suppliers from a reduced risk profile as Shippers will have assurance that the settlement process has closed.

Implementation of this modification would also more closely align the settlement window with the back billing arrangements that domestic suppliers currently adhere to. EDF Energy in response to views that implementation would be inconsistent with the statute of limitations, and expose Shippers to the risk of being unable to recover costs that they have to reimburse to customers, highlight the view that the statute of limitations only applies when there are no back stop dates within contracts. If this latter view is the case then Suppliers could seek to amend their contract terms to provide a backstop date aligned with the settlement period and so address these issues.

In National Grid Gas Distribution's (NGD) opinion, implementation of this modification is consistent with the objectives of promoting competition and efficiency in the implementation and administration of the Code. NGD is aware that in adopting a shortened close out period that there is a risk of increasing the potential for the socialisation of some costs which would arise where reconciliation is prevented. This reconciliation may or may not differ significantly from the original allocation. This risk can be mitigated to some extent by the submission of timely and accurate meter reads. Useful information has been provided in the Modification Report relating to the amount of allocated energy which remains unreconciled over time. This does not appear to show a significant difference when comparing 3-4 years with the existing 4-5 years cut off. In addition to the unreconciled energy it is also necessary to consider User Suppressed Reconciliation Values (USRVs).

Scotia Gas Networks (SGN) observed that the evidence provided by Xoserve shows no benefit of having a reconciliation period of greater than 3 years and 364 days. The proposed reconciliation period should help to ensure that energy reconciliation is carried out in a timely manner.

Wales & West Utilities also comment on the analysis provided by Xoserve and believe that a reduction to a 3-4 year billing backstop would not significantly (or materially) increase the amount of unreconciled energy. Whilst they appreciate the concerns raised by parties that this could increase the risk to smaller parties they believe that this model presents an appropriate balance of risk and incentive that should help to ensure that energy reconciliation is carried out in a timely manner.

## 10 Panel Discussions

The Panel Chair summarised that the UNC provides that retrospective invoices are limited to a period between 4 years to 4 years and 365 days. This Modification proposes reducing this period by one year, such that retrospective invoices are limited to a period between 3 years to 3 years and 365 days.

Some Members considered that, by reducing the scope for retrospective adjustments, implementation could be expected to reduce the risk faced by some Shippers. The prospective of retrospective adjustments creates uncertainty and leads to risk premiums being included in prices. Reducing risk and uncertainty can be expected to facilitate the securing of effective competition.

Members also recognised that any adjustment to Shippers at the DN end of the process would be offset by a change to NTS Shrinkage, with the risk potentially being moved rather than reduced.

Some Members were concerned that risk would be increased since implementation would increase the discrepancy between the UNC and the Statute of Limitations - customers may have to be recompensed for any error in a period despite there being no reconciliation of costs allocated under the UNC. Increasing risk would be detrimental to the securing of effective competition.

Members then voted and, with six votes in favour and 4 against, determined to recommend that Modification 0398 be implemented.

## 11 Recommendations

### Panel Recommendation

Having considered Modification Report 0398, the Panel recommends:

- that proposed Modification 0398 should be made.

## 12 Additional Workgroup Considerations

Additional Considerations for the FMR:

Some Workgroup participants advised that they would be providing additional information directly to Ofgem in response to the following these questions. Other Workgroup participants were concerned that insufficient time has been allowed to provide sufficient detailed analysis to answer the question raised by Ofgem.

1. quantify the benefits of the modifications in terms of the reduction in shippers' risk and credit exposure;

One Workgroup participant expressed view that currently tariffs include a risk premium due to the uncertainty around RbD reconciliation, therefore reducing the reconciliation window will reduce the duration of the risk and should therefore lead to a reduction in tariffs.

2. determine the causes of energy remaining un-reconciled after 3-5 years;

There are a number of reasons and factors why energy may not be reconciled with the main cause being an inability to provide a meter reading due access problems or incorrect data held on systems.

- Vacant premises
- Delayed due to warrant process to gain access which is more complex in the business LSP arena
- Asset mismatch between Shipper and Xoserve
- No meter on site and Xoserve not informed
- Dirty address data, resulting in shipper being unable to find the meter and/ or the site itself
- Xoserve systems record meter point as dead, however a meter is actually on site
- Prime and Sub scenarios with difficulties in submitting all reads at the same time, sometimes primes and subs are in different shippers' ownerships
- Meter blocked access

3. set out the typical lead times to resolve settlement disputes or adjustments, together with the estimated scale and age profile of such

adjustments;

Some Workgroup participants were of the opinion that Shippers individual positions were not relevant and that the Transporters Agent is best placed to provide this information for the industry.

4. consider the financial implications of a shortened reconciliation window in terms of re-distribution between Small Supply Point (SSP) and Large Supply Point (LSP) sectors (or vice versa);

Some Workgroup participants consider reducing the window will provide a net gain to the SSP market subject to appropriate incentives remaining in place for Users to reconcile accounts. However, some Workgroup participants were concerned that insufficient time has been allowed to provide sufficient evidence for a judgment to be made one way or the other.

5. further consider the impact of these modifications upon UNC Parties non-code liabilities, their ability to mitigate any associated risk and the applicability of remedies outside of the normal settlement process;

Some Workgroup participants consider there is a risk that where customer account resolution takes longer than 2 years in the LSP sector that industry charging may not be passed through accurately via customer charging if accounts are not reconciled in a timely manner.

- The Workgroup considered the following points:

6. Provide evidence on whether further reconciliation subsequent to the proposed cut off would ordinarily be expected to simply confirm the original allocations, or involve a significant redistribution of costs;

Some Workgroup participants were of the opinion that Shippers individual positions were not relevant and that the Transporters Agent is best placed to provide this information for the industry. However, the Transporters Agent gave a view that they can only provide a snapshot of current behaviors based on the rules in place.

Xoserve analysis has been published here  
[www.gasgovernance.co.uk/03950398/260412](http://www.gasgovernance.co.uk/03950398/260412)

7. Provide evidence of the extent to which suppliers' tariffs currently anticipate the risk of reconciliation and the likely effect that its removal may have on tariff structures;

Some Workgroup participants advised that they were unwilling to provide this information to the Workgroup as it is commercially sensitive. However, a number of Workgroup participants advised that they would be willing to share such information directly with Ofgem.

One Workgroup participant felt that there would be no overall impact on tariff structures.

8. Assess the extent to which meter reading performance is influenced by the prevailing settlement window;

Some Workgroup participants felt that meter reading performance should not be a significant issues as Users currently have meter reading obligations in UNC with the must read process providing an incentive to submit meter readings for LSPs.

Workgroup participants noted that NDM meter reading strategy's and performance was not driven by the settlement window.

9. Assess the impact on the relevant objectives of the differences between the two modifications, namely the relative length of the proposed settlement windows and their respective implementation dates;

There were mixed views on which modification furthers the relevant objectives with support for both Modification 0395 and 0398. One Workgroup participants preferred Modification 0395 subject to an assurance that there would be no additional costs passed through to the LSP market.

10. Assess the optimum implementation date for each modification;

Some Workgroup participants would like to see an implementation notice of 6 months to allow systems and processes to be modified. However, some Workgroup participants were concerned that insufficient time had been allowed to fully understand the implementation implications of each modification.

Some Workgroup participants consider 0398 is a stepping-stone to the implementation of Modification 0395. One participant felt that Modification 0398 is a step in the right direction but at this juncture, Modification 0395 may be a step too far.

11. Identify alternative remedies under the UNC, in equity and in law, including consideration of how the Limitation Act 1980 would be applied and its effect on any right of recovery.

Some Workgroup participants held a similar view to Ofgem in that they were not of the opinion that the Limitation Act would impact these modifications. However, some Workgroup participants were concerned that in this case the billing error would sit with the organisation that has undertaken the energy allocation or transportation activity. At present, there is no clear mechanism for this to occur and a Shipper will have to rely on a legal process to correct any significant cost error, which is a significant cost in particular for smaller suppliers.

The Workgroup invites the Panel to:

- AGREE that Modification 0398 be submitted for further consultation.

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## 13 Further Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Support
EDF Energy	Support
ICOSS	Comments
RWE npower	Support
Scottish Power	Support

Of the five representations received four supported implementation and one provided further analysis and comments.

### Summary Comments

British Gas' position remains the same and they currently have no further information to offer.

ICOSS provided some additional data and are currently undertaking detailed analysis of the impacts. They provided details of areas to be further examined within their response.

EDF Energy believes that the majority of causes of un-reconciled energy in the LSP market are within the control of the registered LSP Shipper. As such, EDF believe that implementation of Modification 0395 or 0398 would not result in an increase in unreconciled energy. Instead they believe that LSP Shippers will seek to ensure their energy is reconciled in a timelier manner. This is also supported by experience from implementation of 0152V.

EDF Energy also do not believe that implementation of either modification would result in a re-distribution of money from LSP to SSP Shippers. Instead the benefit of this modification is more timely reconciliation which in turn will reduce the risk premium faced by SSP Shippers.

EDF believe any non-code impacts can be mitigated through supply contracts. They believe that the Limitation Act 1980 only applies when there are no contract terms to cover this. As such they believe that this could be covered by amending standard contract terms so that this was aligned with the UNC if this was required. They believe from the large volume of I&C Supply contracts in electricity the mismatch between the settlement window and the Limitation Act 1980 does not cause any issues, as this is mitigated through contract terms and arrangements.

RWE npower recognises the benefits associated with shortening the reconciliation window. Consumer benefit may be derived by a supplier crystallizing its costs earlier, if a reduction in any risk premia is possible. However, they remain unconvinced about the magnitude of the benefit when other effects such as errors in the allocation of gas are taken into account. They believe that Modification 0398, the (3 – 4 year solution) represents the more suitable modification. It is an improvement to Industry timescales for settlement and aligns more appropriately with current industry meter reading requirements.

Scottish Power are of the opinion that a reduction to the period in which retrospective invoicing and correction can be applied is a positive step and will assist in reducing the risk of uncertainty to Shipper costs particularly within the SSP market sector. However they state a preference for Modification 0395.

They do have concerns in relation to the volume of Supply Meter Points that remain un-reconciled on CSEPs. They believe that full engagement of all responsible parties is required in an effort to resolve data inconsistencies between portfolios held by Shippers/iGTs/Large Transporters prior to the introduction of Modification 0395 or 0398. This exercise would also support the introduction of an IGT Single Service Provision. Sufficient time should be allowed for both the data cleansing exercise and to allow any necessary reconciliation adjustments to occur.