Review Group Report
Review Proposal Reference Number 0126
Restriction of Invoice Billing Period

Version 0.8

This Review Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Review Group is that the UNC should be modified to introduce a maximum 5 year restricted invoicing billing period which rolls forward annually on 1st April each year.

Appendix 1 contains the Terms of Reference

Appendix 2 contains illustrations to describe the various business rules recommended by the Review Group.

Appendix 3 provides a summary of the data presented by xoserve to the Review Group

Appendix 4 contains illustrations provided by the NTS Shrinkage Provider

Appendix 5 is a draft modification proposal [still to be written]

1. Review Proposal

Centrica raised Modification Review Proposal 126, for which the following Terms of Reference were agreed: see Appendix 1

2. Review Process

In accordance with the Modification Rules, at its meeting on 21/12/2006 the Modification Panel determined that the Review Proposal should be referred to a Review Group for progression. This Review Report was subsequently compiled by the Joint Office of Gas Transporters, and was circulated for comment to Review Group attendees.

3. Areas Reviewed

The Review Group discussions focussed on the following areas:

a) The scope of the UNC invoicing activities within the 126 review, which encompasses:

i) Primary Reconciliation charges:

- DM reconciliation
- NDM reconciliation
- LDZ reconciliation
- I&C CSEP reconciliation

(Including any Filter failures (SRV and USRV) generated by the reconciliation process)
These charges are reconciliations to the charges originally invoiced on the commodity invoices and Energy Balancing Charges. The period of each

reconciliation is currently limited to the later of the reconciliation opening read date or 1st February 1998.

ii) "Secondary" Reconciliation charges:

- "On line" RbD charges
- "Off line RbD charges

These charges represent the adjustment to the smaller supply point market as a result of reconciliations in the larger NDM or DM supply point market, or LDZ reconciliations, or other adjustment charges. There are some complexities with this activity that are covered later in this document.

iii) Adjustment charges:

- Invoice and operational queries
- Consumption adjustments

These charges represent adjustments to primary commodity, capacity and Energy Balancing Charges, and adjustments to primary reconciliation charges. Adjustments for invoice and operational queries are subject to UNC rules, some adjustments e.g. for duplicate supply points, are limited to the later of the initial supply point confirmation date or 1st February 1998 (the current industry cut-off date for all charges).

b) Principles for the restriction of the invoice billing period

i) Fair and equitable for all participants

The Review Group considered that the principles for restricting the invoicing billing period must be fair and equitable for each industry participant at an individual (shipper, transporter) or group (smaller supply point market) level.

The Review Group considered two options for treatment of the "cut-off" date; bringing forward the present "cut-off" date (1st February 1998) as a one-off event or rolling forward the "cut-off" date on a regular basis. The Review Group recommends that an enduring regime is developed and that the restricted invoice billing period rolls forward on an annual basis.

The Review Group concluded that a fair and equitable regime was best achieved by establishing one set of rules that applied to each restricted invoice billing period and for each "roll-forward" of the restricted invoice billing period.

The Review Group confirmed that energy for each market sector (larger supply point and smaller supply point) must be kept "whole" and that appropriate business rules were required to allow certain invoices to be valid under each restricted invoice billing period.

The Review Group considered that positive incentive schemes were required to ensure that no one industry party could behave in a manner that would accidentally or intentionally bring undue advantage to themselves or undue dis-advantage to other parties. In particular, the USRV incentive scheme would need to be enhanced to support this.

ii) Cutover principles

The Review Group recommends that a “hard cutover” approach is taken for each “roll-forward” of the restricted invoice billing period. Once rolled forward, the relevant historic period is “closed-out”

iii) Cutover rules for each “roll-forward”

The Review Group recognised that specific business rules were required at each cutover for the treatment of energy under RbD rules, for the processing of reconciliation and adjustment charges around the Cutover date, and for the treatment of User Suppressed Reconciliation Values (USRVs).

c) Proposed rolling restricted invoice billing period

i) Restricted invoice billing period

The Review Group have recommended a restricted invoice billing period of no greater than 4 years 364 days. This is referred to as the “5 year” model i.e. the charge period is limited to no more than 5 years in total. This period can be reviewed at a future date in the light of experience.

ii) “Roll-forward” frequency

The Review Group recommends an annual “roll-forward” of the restricted invoice billing period, occurring on the 1st April each year. The 1st April was chosen as it is a price variation date, and was chosen in preference to 1st October as it is a less busy period for the industry (the September and October periods being when the AQ process is conducted). In addition, it may be consistent with the Ofgem consultation regarding changing the start of the gas year to 1st April.

The Review Group considered other "roll-forward" frequencies e.g. bi-annual, six monthly, monthly. When considering the 5 year model, the Review Group concluded that the level of risk regarding unreconciled supply point energy at five years for a year was not material and that a monthly or six monthly roll-forward did not affect the position, in addition there were industry costs associated with each "roll-forward" and that if these occurred too frequently it would be difficult to administer. Conversely, the Review Group considered that a bi-annual "roll-forward" was not frequent enough to be operated efficiently. The Review Group did conclude that there was a relationship between the restricted invoice billing period and "roll-forward" frequency, the shorter the restricted invoice billing period, the more frequent should be the "roll-forward", this was based upon the level of risk regarding unreconciled supply point energy.

iii) Implementation

The Review Group consider that the earliest implementation could be 1st April 2008, when the current date of 1st February 1998 could “roll-forward” to 1st April 2004. This is dependent upon UNC Modifications Proposals being consulted upon and gaining Ofgem approval, with resultant changes to shipper and xoserve systems. The timing of modifications and complexity of business rules will ultimately determine the industry’s earliest implementation date and timescales are challenging.

d) Restricted invoice billing period underlying requirements

The Review Group have considered the treatment of USRVs and concluded that an enhanced incentive scheme must be in place to ensure appropriate behaviour within the industry, this is being addressed in the Distribution Workstream.

4. Data reviewed by the Review Group

xoserve, the Transporters agent, presented a range of data to assist with the review (see appendix 3). The purpose of providing this data was to assist the Review Group in determining the restricted invoice billing period, frequency of roll-forward, and the date of the first roll-forward from the present cut-off date of 1st February 1998.

Having reviewed the data the Review Group concluded that after a period of 5 years the amount of unreconciled energy, at approximately 3 terawatts of the original deemed 300 terawatts (1% approximate), was an acceptable level to close-out. The Review Group noted that all industry participants should work towards minimising this unreconciled value by securing reads for reconciliation purposes and actioning USRVs.

The NTS Shrinkage Provider has submitted information to assist with the review (See appendix 4). The purpose of providing this information was to assist the review in evaluating the socialisation of costs associated with selecting an appropriate restricted invoice billing period (RIBP).

The data provided has shown that the impact of adopting a 4-5 year RIBP would have historically led to the socialisation of 2.6 TWh (2.6 TWh - £20m) of energy. The NTS Shrinkage Manager suggests that in accordance with Licence objectives, it is economic and efficient to appropriately target those parties that accrued these costs. Should the 0126 Review Group adopt an RIBP of 5-6 years, this socialisation effect would fall from 2.6 TWh to 1.2 TWh. In financial terms this equates to an additional socialisation of costs between all shippers of £20m for a 4-5 year RIBP or, £9.1m in the event of a 5-6 year RIBP.

The data that xoserve has presented has demonstrated that within the LDZs there is 3 TWh of energy that has been deemed but not reconciled which exposes the Users to a maximum risk of 3 TWh of energy being incorrectly targeted between Users within LDZs.

In contrast the information that the NTS Shrinkage Manager has submitted for consideration represents an added element of 2.6 TWhs of energy costs that would be socialized between the Users funding the NTS Shrinkage Provision and those Users transporting within the LDZs."

4.1 Advantages/ Benefits of a restricted invoice billing period

- Reduces the contractual risk for Shippers.
- Reduces the costs to the industry of maintenance and storage of data.
- Provides certainty to market participants on the period to which invoices will be raised for.
- Reduces exposure of new entrants to unforeseen costs.
- Reduced potential size of any one-off reconciliation.
- Promotes improvements on data management.
- The implementation of an RIBP would limit the single year incentive impact of a long period reconciliation

- Allows sufficient time for a retrospective change to be notified and actioned.

4.2 Disadvantages/Impacts

- The restricted period may prevent potentially large elements of energy and transportation charges being attributed appropriately across market segments and increases the potential for socialisation of some costs.

5. Recommendations

The Modification Panel is invited to accept this report and the recommendations that:

1. No further work is required in respect of the Review Proposal
2. Modification Proposals should be raised to create a restricted invoice billing period of 5 years, and establish an annual "roll-forward" of this period.

Appendix 1 Terms of Reference

Purpose

A Uniform Network Code Review Group is required to review the current UNC arrangements in respect of restricting invoice billing periods for retrospective corrections.

Scope and Deliverables

To the extent of identifying and considering high-level options for regime change, which could meet the aspirations of the Proposer, the Review Group will consider:

1. Reviewing the current fixed date of February 1998 and whether it is appropriate to set a new fixed date for retrospective correction or whether there should be a rolling period and if so, what that period should be. Consider whether some other mechanism for determining the period of retrospection is more appropriate e.g. confined to a discrete price control period.

2. Whether all errors should continue to be managed in the same way, or whether different error triggers should drive different resolution approaches. (E.g. debits vs credits, metering errors vs administrative billing errors, NTS input meters vs NTS offtake meters, different invoice types etc.)

3. The interplay between the need of shippers to consider and validate invoices in the light of the various options identified for limiting retrospection.

4. The need for reconciliation to be allowed to properly complete in the light of the various options identified for limiting retrospection and how to cut over to a new regime.

5. The need to avoid any perverse incentives on any party to behave in a manner that would intentionally bring undue advantage to themselves, or undue disadvantage to any other party(ies). (E.g. treatment of user suppressed reconciliations).

6. The extent to which positive incentives and changes to the Meter assurance regime are created, and how these might be responded to. For example, incentives upon Transporters to increase the frequency and accuracy of offtake meter inspections.

7. How different players within the industry might be advantaged or disadvantaged by the Review Group's preferred outcome.
8. The extent to which the Review Group's preferred outcome might bring equability, stability and certainty to the industry, and also better facilitate the relevant objectives contained within the Transporter licence.

A Review Group Report will be produced containing the findings and recommendations of the Review Group in respect of the work identified above.

Limits

The Review Group will consider changes required to the following:

- Uniform Network Code.
  Including:

  Before the day daily activities, close out, nominations, missing reads, daily read error, liabilities, check reads, billing/settlement, etc.

The Review Group in its initial phase (six months) will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Composition

Name	Organisation
Julian Majdanski (Chair)	Joint Office
Mike Berrisford (Secretary)	Joint Office
Alan Raper	National Grid Distribution
Alison Jennings (alt to Alan Raper)	National Grid Distribution
Alex Travell	EON
Brian Durber (alt to Alex Travell)	EON
Andy Miller	xoserve
Christian Hill	RWE Npower
Joel Martin	Scotia Gas Networks
Linda Whitcroft	xoserve
Lisa Waters	WWA (on behalf of Corona Energy)
Nick Wye (alt to Lisa Waters)	WWA (on behalf of Corona Energy)
Marie Clark	Scottish Power
Karen Kennedy (alt to Marie Clark)	Scottish Power
Mark Jones	Scottish & Southern Energy
Mike Young (Proposer)	British Gas Trading
Rochelle Hudson (alt to Mike Young)	Centrica
Paul Gallagher	National Grid
Phil Broom	Gaz de France
Richard Hall	Ofgem
Robert Cameron-Higgs	Northern Gas Networks
Simon Trivella	WWU
Stefan Leedham	EDF Energy
Steve Nunnington	xoserve
Steve Pownall	National Grid Transmission
Tim Davis	Joint Office

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Section E, F, S, (others to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
  - Gas Safety (Installation & Use) Regulations.
  - Gas Safety (Management) Regulations.
  - Industry Codes of Practice as relevant.

Timetable

- Frequency of meetings – at least monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

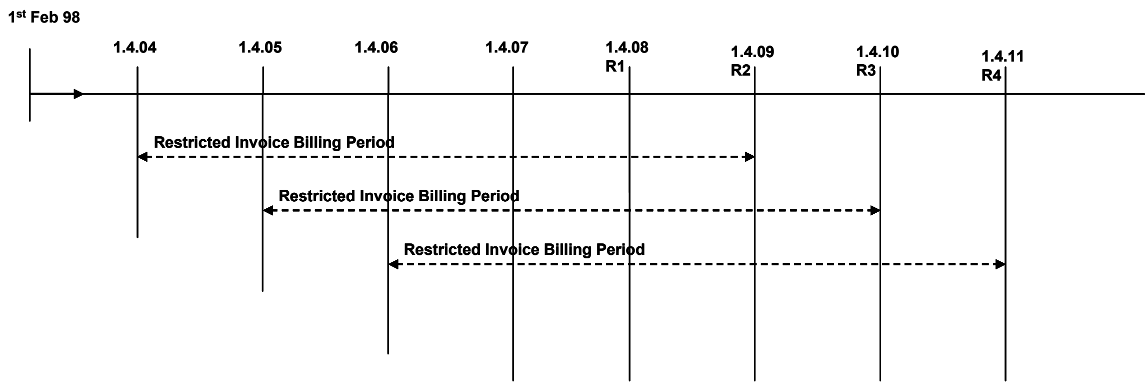
Appendix 2 Illustrations of each business rule

1. Restricted invoice billing period 5 years and annual "roll-forward"

The invoice billing period will be restricted to a maximum period of 4 years 364 days.

Assuming a first implementation in April 2008
With effect from 1.4.08 all charges raised from this date and up to 31st March 2009 are restricted to an earliest start date of 1st April 2004

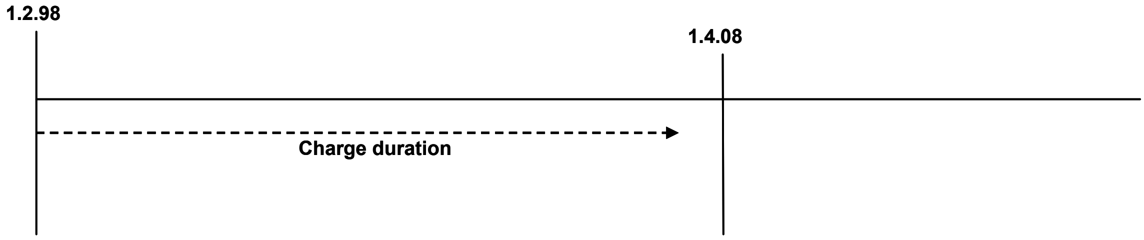
In April 2009, the restricted invoicing billing period will roll-forward one year. With effect from 1.4.09, all charges raised from this date and up to 31st March 2010 will be restricted to an earliest start date of 1st April 2005.



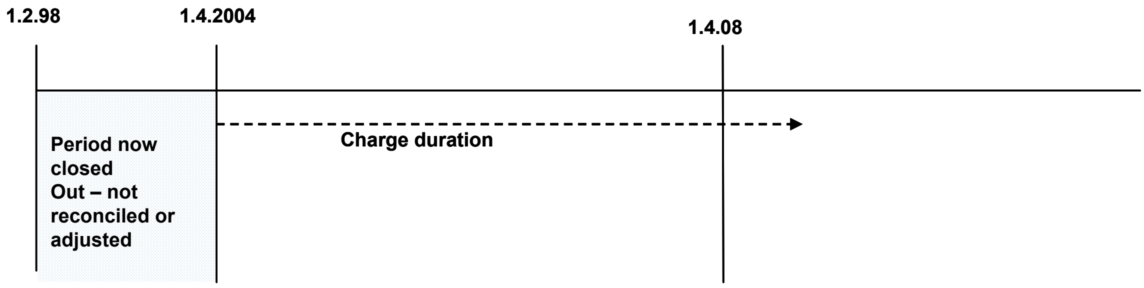
2. Hard cutover rules

Once the restricted invoice billing period rolls forward, no further adjustment is made to energy and charges that are now “closed-out”.

Up to 31st March 2008, charges (where required) will be calculated from 1st Feb 1998

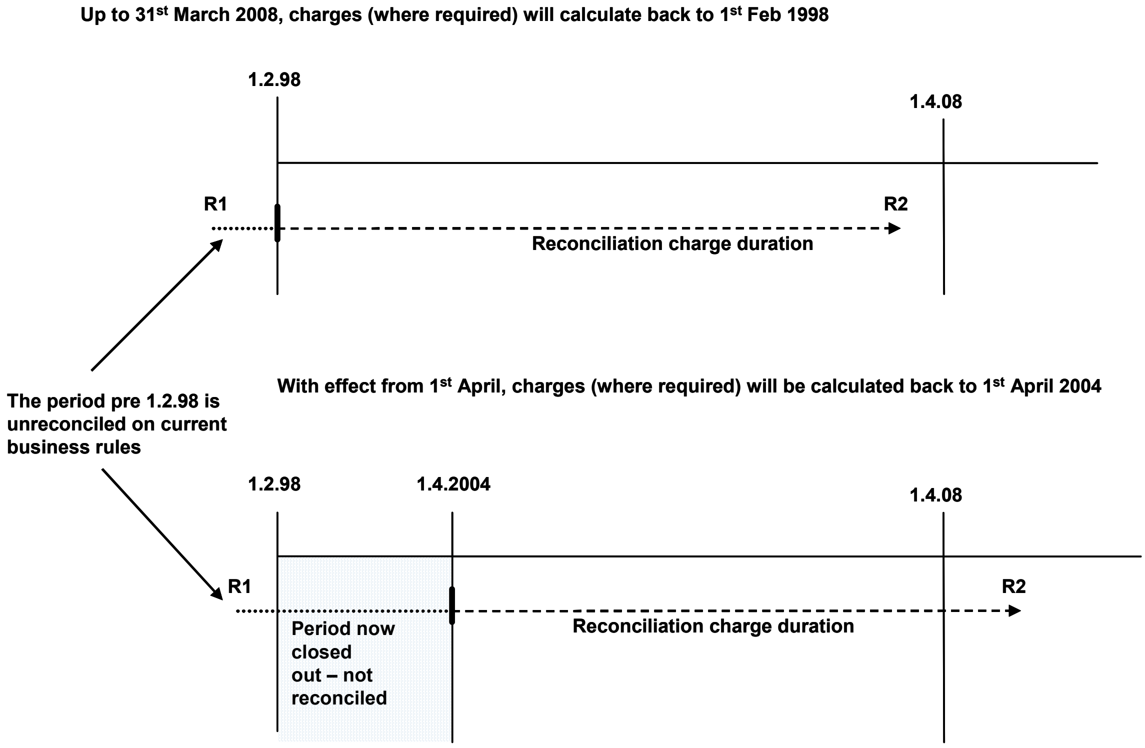


With effect from 1st April 2008, charges (where required) will be calculated from 1st April 2004



3. Hard cutover – reconciliation

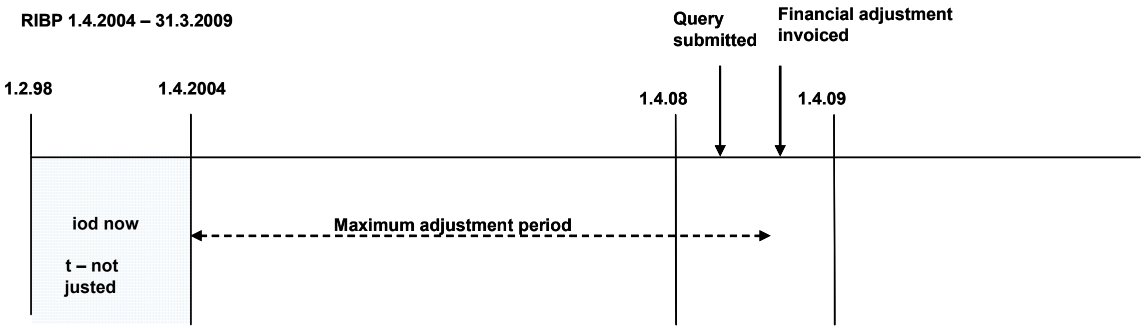
The following diagrams illustrate the hard cutover principles applying to reconciliation.

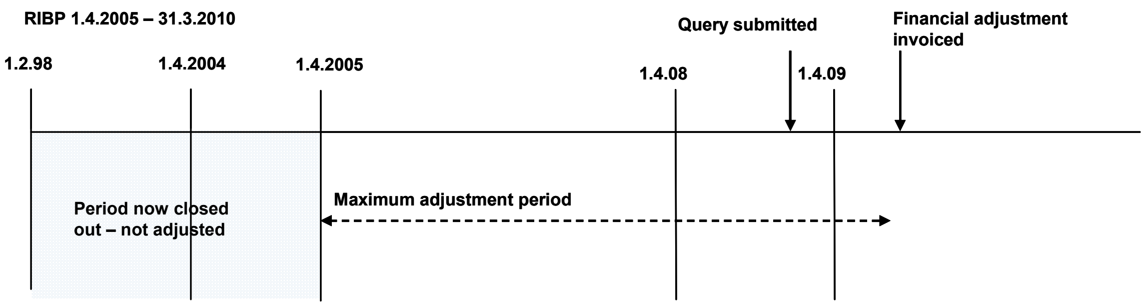


It was noted in the Review Group that the restricted invoice billing period and the annual roll-forward only have an impact on those reconciliations that extend beyond 5 years. The majority of deemed energy is reconciled within 2 – 3 years of the deemed energy. See Appendix 2.

4. Hard cutover – adjustments

The following diagrams illustrate the hard cutover principles applying to reconciliation. Note that the maximum allowable invoice period is set when the financial adjustment is invoiced (tax point date) not when the query is submitted. The two diagrams illustrate this point.





It was noted in the Review Group that the restricted invoice billing period and the annual roll-forward only have an impact on those adjustments that extend beyond 5 years. The majority of adjustments are addressed within 2 to 3 years of the invoice issue.

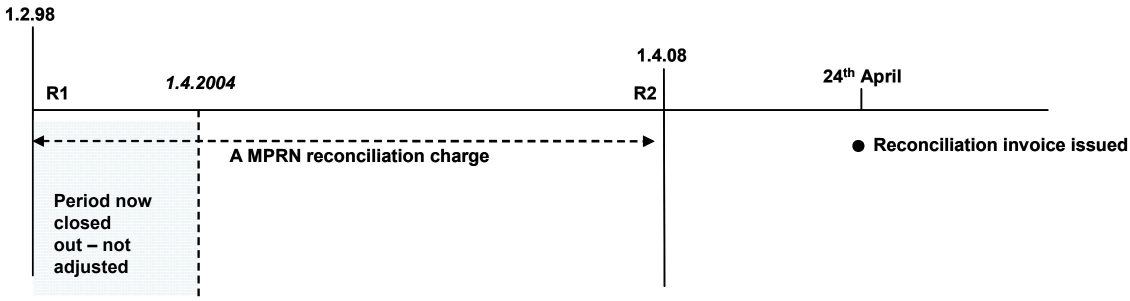
5. Business rule – reconciliations and adjustments in progress over the "cutover" period

Reconciliations, and to some extent adjustments, are generally invoiced a month in arrears from the activity that generates the charging activity. For example, where a reconciliation read is received in March, the charge is calculated during March and is issued on the March reconciliation invoice at M+18 i.e. the March invoice is issued sometime in late April.

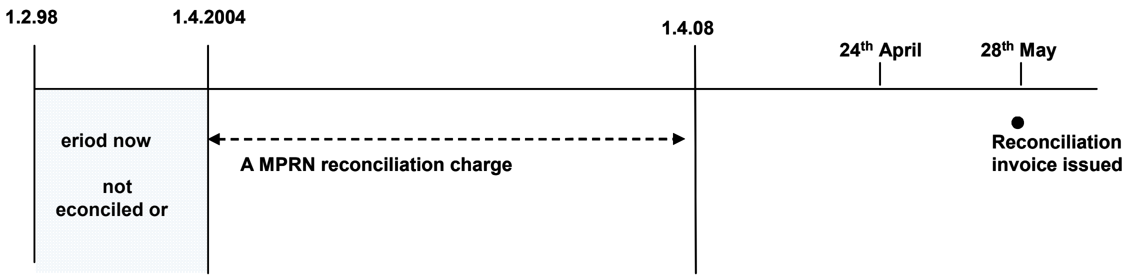
Under a restricted invoice billing period regime, the period will roll forward annually on 1st April.

A reconciliation charge on the March invoice (calculated from the read received in March) may contain charges back to the earliest start date of that restricted invoice billing period. However, the March invoice containing this reconciliation charge is not issued until the 18th business day of April, when the restricted invoice billing period has rolled forward and a new start date for reconciliations is now in effect. To avoid recalculating those reconciliation charges that pre-date the earliest start date in force when the invoice is issued a business rule will be written to allow these reconciliation charges to be valid.

In the example below, the reconciliation invoice issued on 24th April 2008 contains a reconciliation charge that starts from 1st February 1998. On 1st April 2008, the restricted invoice billing period rolled forward to 1st April 2004, and the charges calculated in March 2008 and issued in April 2008 are deemed to be valid.



Any reconciliation reads received from 1st April 2008 onwards or any adjustments calculated from 1st April 2008, will have a reconciliation or adjustment charge start date of 1st April 2004. As illustrated below:



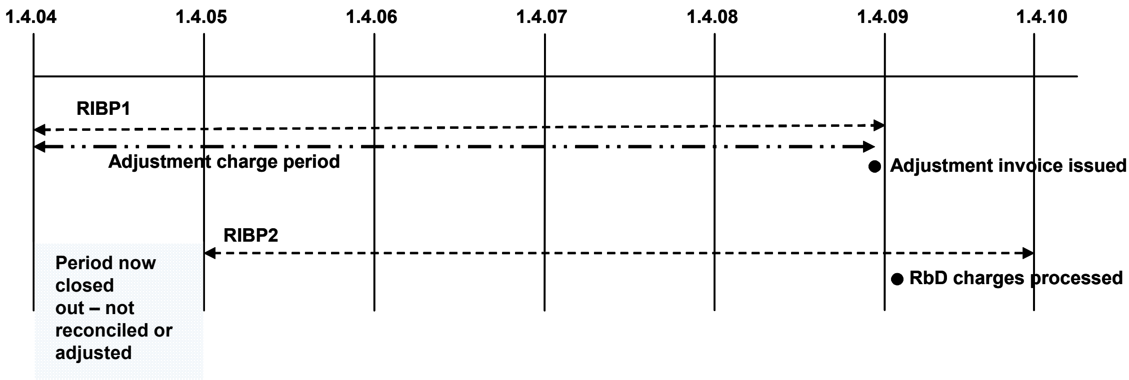
6. Business Rule – reconciliation by difference treatment

Reconciliation and adjustment charges are processed as a “primary” charge. Each reconciliation and adjustment charge will generate a “secondary” activity – an equal and opposite to the smaller supply point market through the Reconciliation by Difference (RbD) charges.

Not all RbD charges are issued at the same time as the “primary” charge. Some RbD charges are processed a month later. This occurs where the reconciliation or adjustment is processed offline from the main invoice activities and there is not time to process both “primary” and “secondary” charges within the same month.

A business rule is required to allow all RbD charges to flow in full (regardless of restricted invoice billing period) to ensure that energy in each market sector remains whole.

The diagram below illustrates this point



This business rule is specifically driven by the “primary” charge event. All “primary” charges must have their associated “secondary” charge processed in full.

7. Business rule User Suppressed Reconciliation Volumes (USRVs)

Reconciliation charges that exceed certain tolerances are suppressed and do not appear as a charge on an invoice. The USRV are submitted to shippers for resolution. As previously illustrated, a reconciliation charge can extend back to the earliest start date.

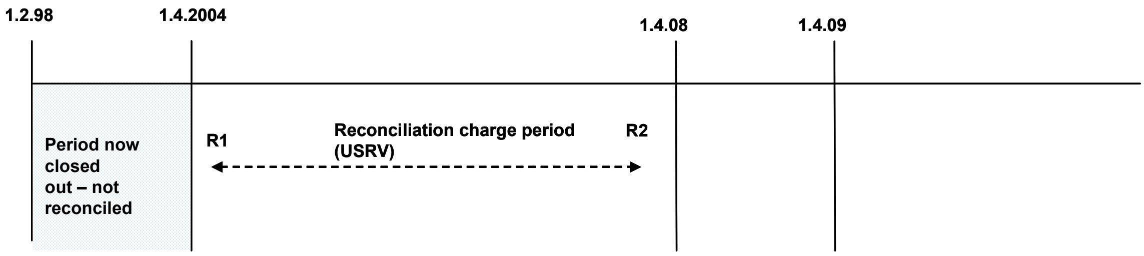
A business rule is required to deal with periods of a USRV that become "timed-out" as the restricted invoice billing period rolls forward.

The Review Group considered options for releasing the USRV in full prior to the 1st April roll-forward, or holding the USRV indefinitely until it is resolved by the shipper. Neither of these options were considered to meet the terms of reference of the Review Group.

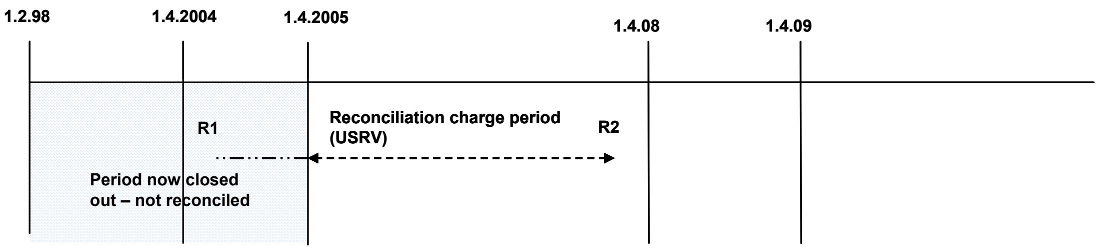
The Review Group have recommended that, to meet the principles outlined above, the USRV is recalculated as required to remove any charges for the period that has become closed out.

The diagrams below illustrate this business rule.

In February 2008, a reconciliation charge is calculated which results in a USRV



In April 2009, part of the reconciliation charge is now "timed out". The reconciliation is recalculated, and may or may not pass the tolerance filter.

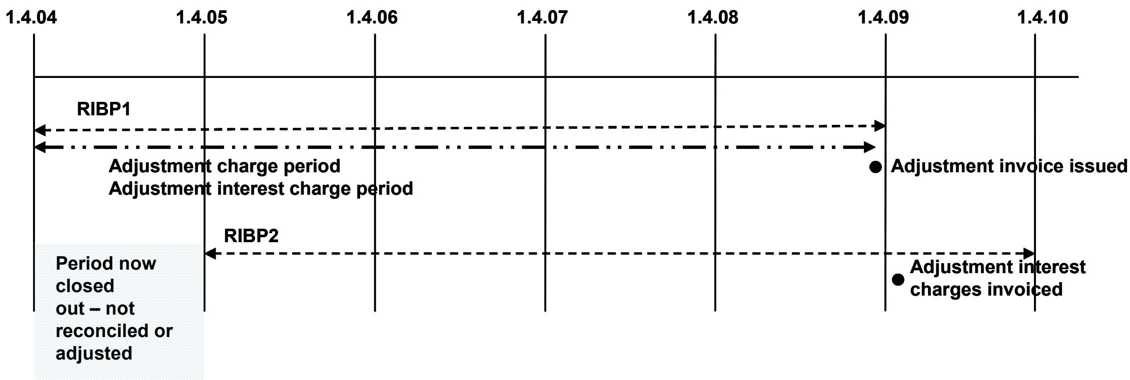


8. Business rule - interest charges

Any applicable interest charges associated with an adjustment are generally processed within one month of the adjustment being issued.

A business rule is required to ensure that the full value of interest is applied to the original adjustment regardless of when the interest invoice is issued. This business rule is required for the occasions where the interest invoice is issued in a new restricted invoice billing period and the adjustment charges were issued in the previous restricted invoice billing period and where part of the adjustment charges are in the period that is now closed out.

The diagram below illustrates this rule.



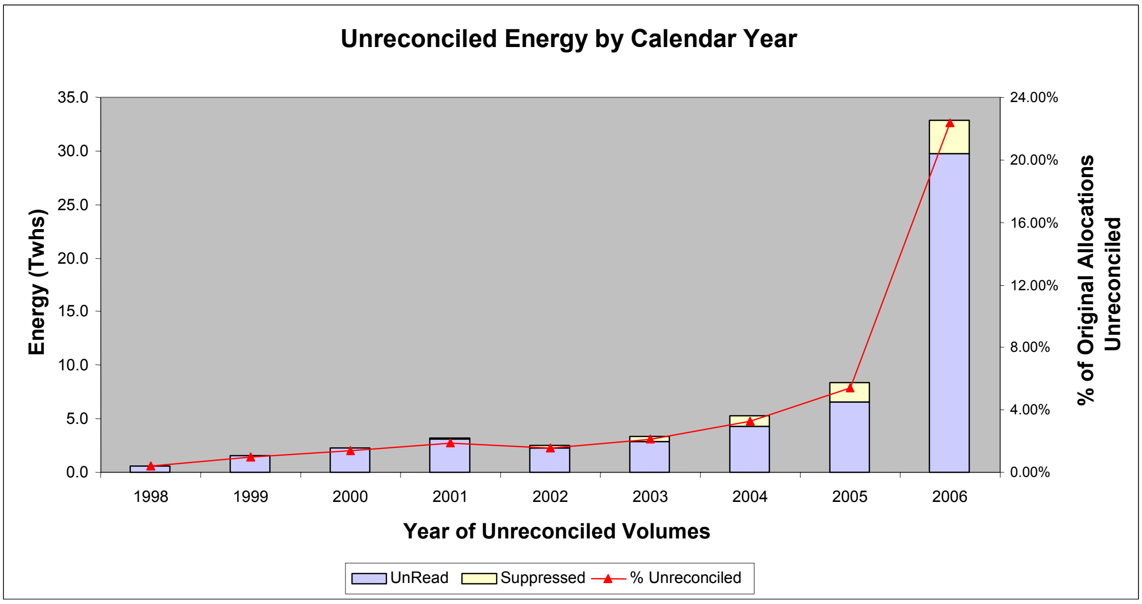
In the above example, the adjustment charges are invoiced in March 2009.
The business rules must allow the adjustment interest charges to flow in full, including those relating to the period 1st April 2004 to 1st April 2005, which is now "closed-out".

Appendix 3 data presented at the Review Group

Unreconciled energy by calendar year as at February 2007

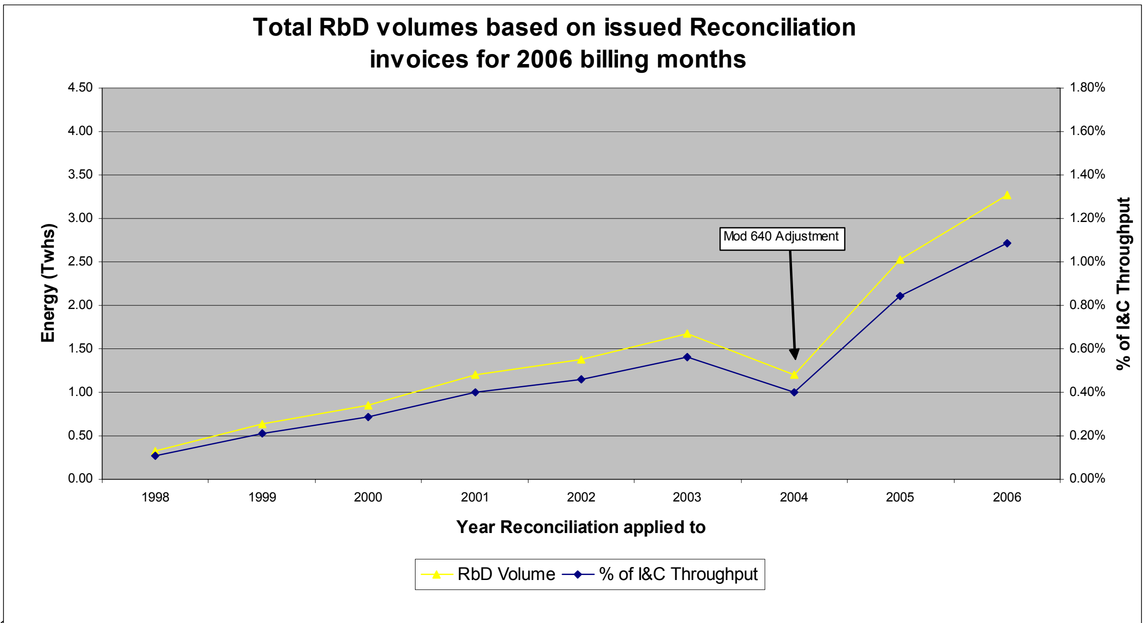
The table below details the unreconciled energy by calendar year. The right hand scale shows this information as a percentage of original deemed energy values. The left hand scale shows this information as the actual deemed energy i.e. the energy deemed but not yet reconciled, on average the actual energy deemed per annum is approximately 300 terawatts.

The values are split by energy reconciled but held in suppression (USRVs) and energy not yet reconciled.



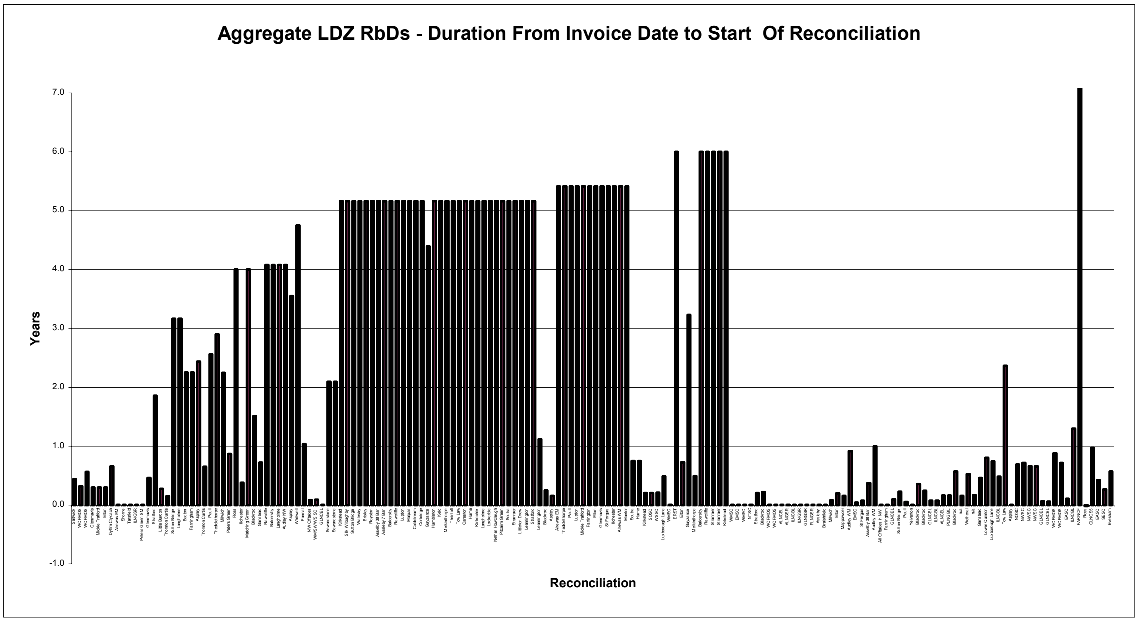
Profile of reconciled energy

The following chart details the energy that was reconciled in 2006, and the year to which that reconciliation energy applied. Charts were provided for 2005,4 and 3 which all showed a similar profile.

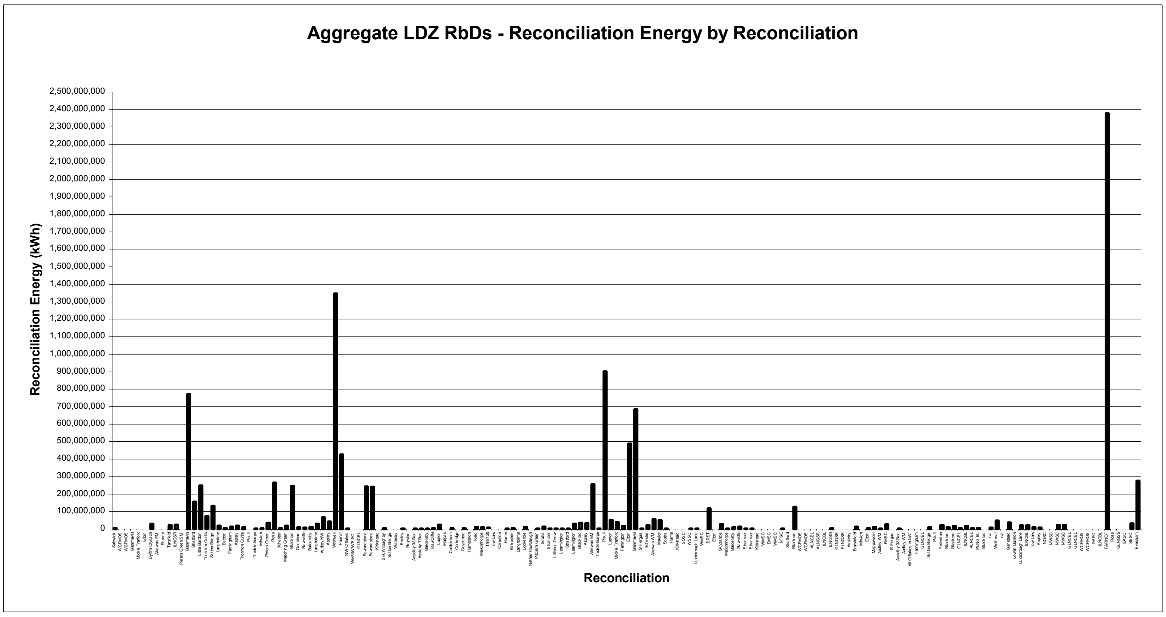


Appendix 4: Illustrations provided by the NTS Shrinkage Provider

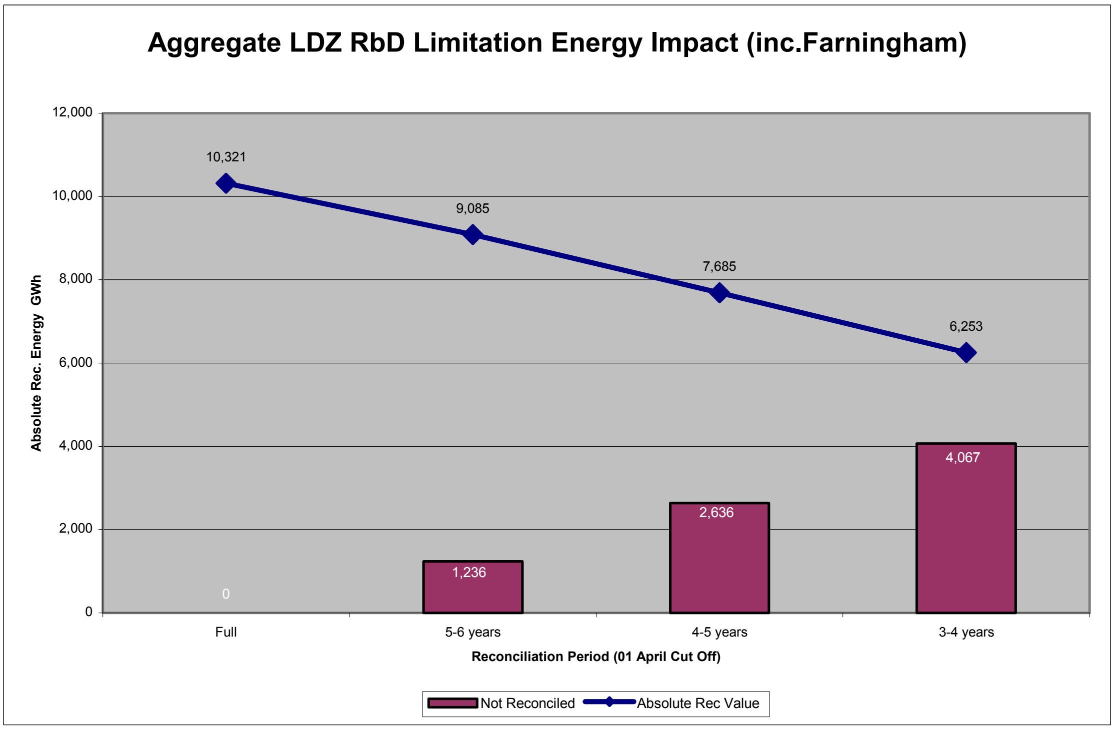
The duration of all NTS to LDZ reconciliations issued since 01 February 1998 based on the time from the start of the meter error to the invoicing of the reconciliation.



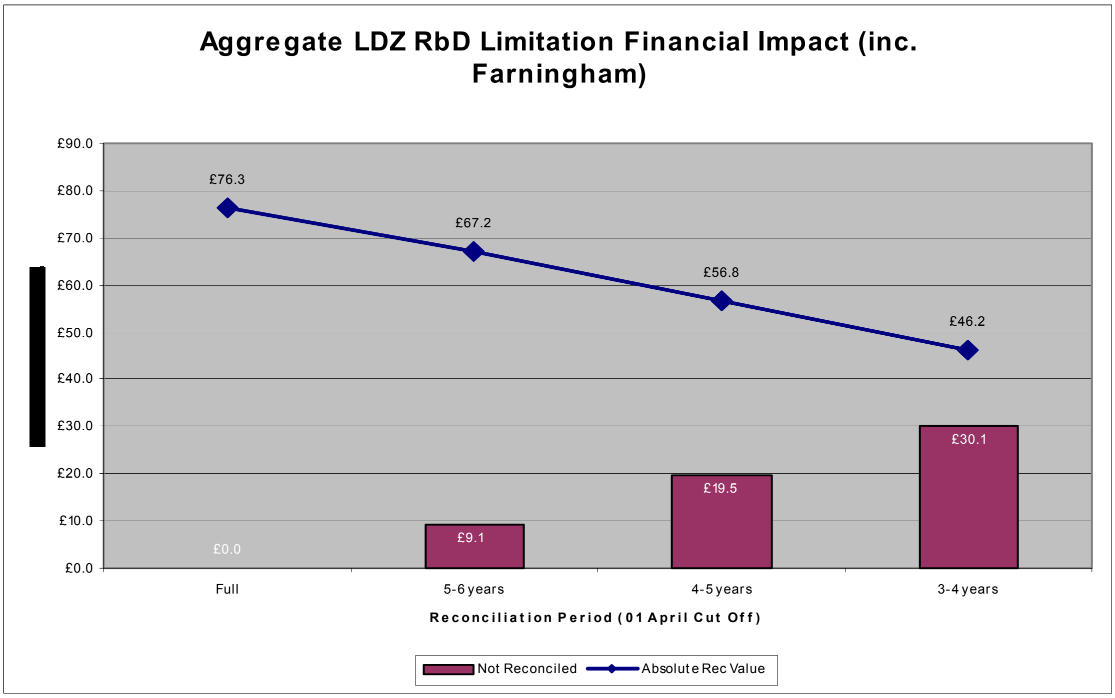
The energy associated with all the NTS to LDZ reconciliations issued since 01 February 1998.



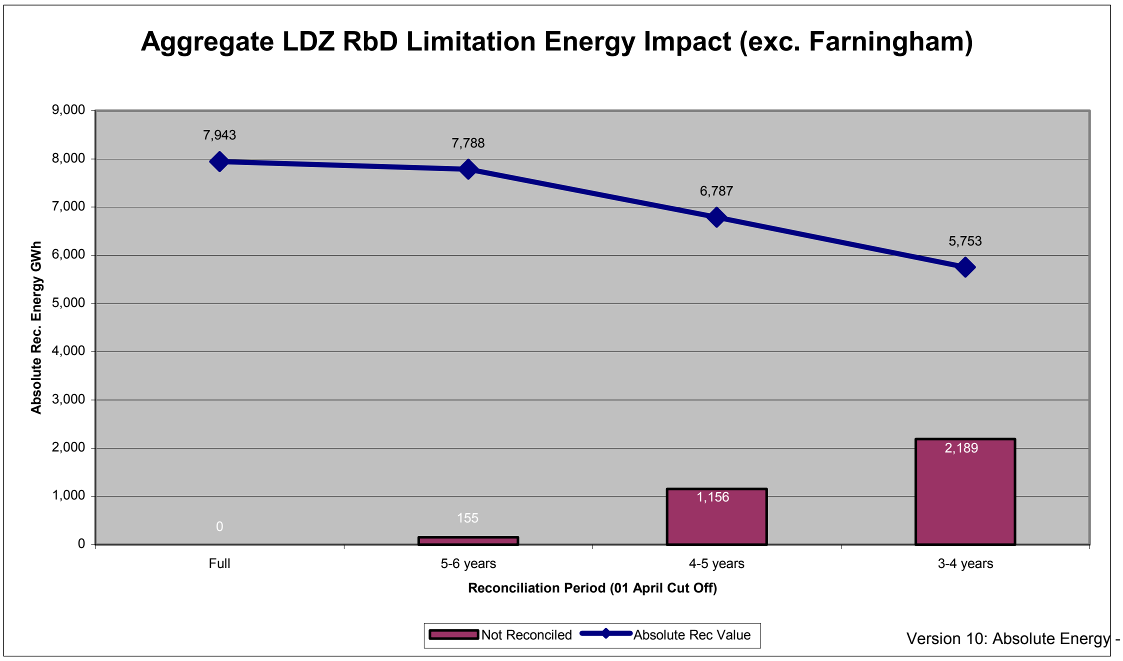
The gross historic energy associated with all the NTS to LDZ reconciliations issued since 01 February 1998 that would be socialised by the implementation of RIBPs of either 3-4 year, 4-5 year, 5-6 year or prevailing framework.



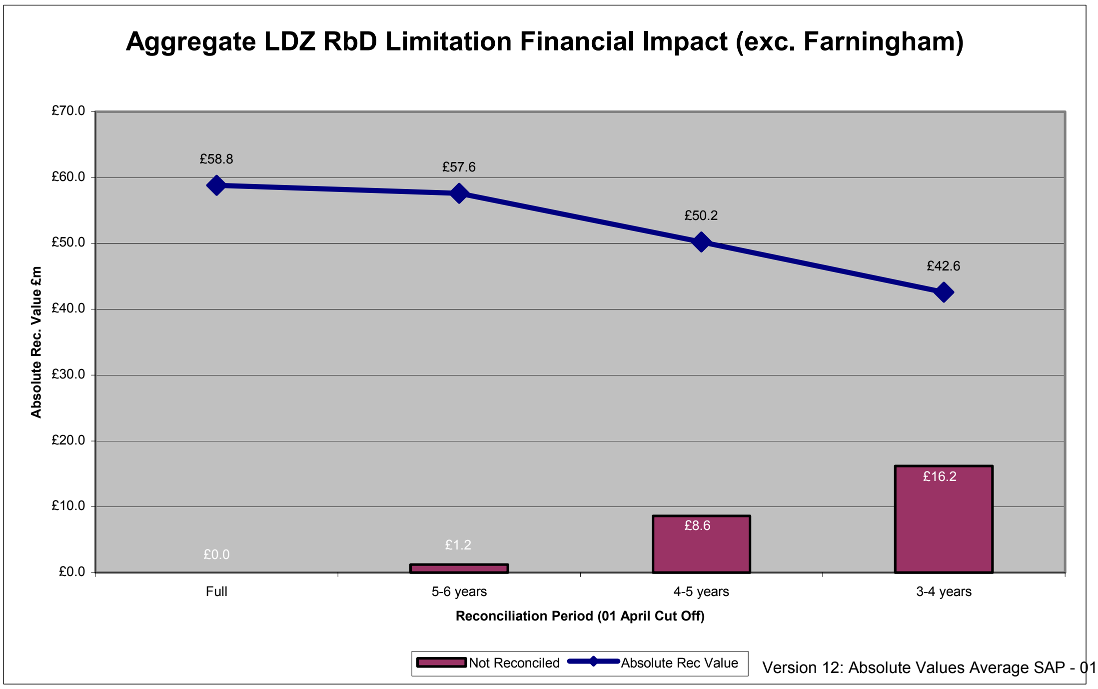
The gross historic energy associated with all the NTS to LDZ reconciliations issued since 01 February 1998 (Excluding Farningham) that would be socialised by the implementation of RIBPs of either 3-4 year, 4-5 year, 5-6 year or prevailing framework. This is based on an average SAP value for the entire period of 0.7397p/kwh.



The gross historic energy value in £million associated with all the NTS to LDZ reconciliations issued since 01 February 1998 that would be socialised by the implementation of RIBPs of either 3-4 year, 4-5 year, 5-6 year or prevailing framework. This is based on an average SAP value for the entire period of 0.7397p/kwh.



The gross historic energy value in £million associated with all the NTS to LDZ reconciliations issued since 01 February 1998 (Excluding Farningham) that would be socialised by the implementation of RIBPs of either 3-4 year, 4-5 year, 5-6 year or prevailing framework. This is based on an average SAP value for the entire period of 0.7397p/kwh.



Appendix 5: Draft Modification Proposal

Proposal:

Proposed Implementation Date:

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

Nature and Purpose of Proposal (including consequence of non implementation)

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested legal text

Code Concerned, sections and paragraphs

Proposer's Representative

Proposer