

CODE MODIFICATION PROPOSAL No 0152
Limitation on Retrospective Invoicing and Invoice Correction
Version 1.0

Date: 13/06/2007

Proposed Implementation Date: 1/4/2008, to apply annual rolling cut off period starting with 1/4/2004 as the first back stop date.

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Currently gas transportation invoices can cover any period between 1 February 1998 to last month. Regularly invoices are produced for adjustments and reconciliations covering this entire period or a substantial portion of it causing Xoserve and Shippers complex calculations and validation. The complexity arises from the large amount of data held, detailed calculations and changes to the charging rules over the years.

Having such a long potential billing period increases the risk to Shippers of receiving charges for prior periods where due to the passage of time, they are unable to recover costs from Customers, it also impacts pricing decisions. Impacting pricing decisions adversely impacts on Shippers/Suppliers ability to competitively price.

This mod proposal is designed to restrict the invoice billing period to a maximum of 4 years and 365 days (known as the 5 year model) on a rolling, hard cutover basis, using an implementation date set up in advance.

The gas industry currently works to a restricted billing period, as the earliest date invoices can include is 1 February 1998. This mod proposal is intended to bring forward this back stop date to lower the risk faced by market participants and reduce the amount of data the industry is required to hold.

Review Group 126 has met since January 2007 to discuss Centrica's proposal and find solutions to Ofgem's issues with Mods 117 and 122. Following discussions at the Review Group, there is a consensus that an open ended retrospection regime is not appropriate. Instead, the Group believes that UNC should contain a rolling period for invoicing retrospection, and that this period should be set at a maximum of 4 years and 365 days. A cut off at this period received greatest support amongst Group participants, informed by data supplied by Xoserve.

The Review Group recommends that (from final review group 126 report):

1. The restricted billing period rolls forward on an annual basis;
2. The roll forward is based on a hard cut over principle, thereby closing out any period earlier than cut off date;

3. The business rules for keeping energy whole are agreed and known in advance;
4. The implementation date for the first cut off is 1 April 2008, giving everyone time to change their systems and understand the rules in advance;
5. The roll forward then occurs every 1 April each year, to avoid the busy time for Xoserve and Shippers with the AQ review etc.
6. The regime for USRVs is reviewed and participants are incentivised to deal with older suppressions rather than allow them to close out.

This proposal, therefore, is to introduce into the UNC a rolling period of 4 years and 365 days as the limit for all retrospective Transporter to Shipper transactions and visa versa. It is the intention of this proposal that:

- ◆ The 4 year cut off should apply from 1/4/2008, therefore depending on the business rules written by Review Group 126.
- ◆ The 5 year model will apply equally to Transporter debits and credits. In this respect, should a further NTS to LDZ meter error come to light after implementation of this proposal, maximum of 4 years and 365 days energy will be reconciled, irrespective of whether this involves a debit or a credit to Shippers.
- ◆ This proposal is not restricted only to metering errors. It applies to all Transporter to Shipper and Shipper to Transporter transactions governed by the UNC.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Urgent procedures are not requested for this proposal.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The subject matter for this proposal has been discussed extensively under the auspices of Modification Review Group 0126 over a period of 6 months. Against this background, the proposer believes that it is appropriate for this modification proposal to be considered by the June Modification Panel and to proceed directly to consultation.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

- a. The efficient and economic operation of the pipe-line system to which this licence relates: *Incentivises gas transporters to ensure that all relevant invoicing*

and metering (in particular the audit and verification of LDZ offtake meters) functions are operating efficiently, as intended and expected by shippers, suppliers and customers. Better data management by whole industry and lower costs within Xoserve. More accurate data will provide Users with a clearer view about the amounts of energy flowing through the system.

b. As a combined pipe-line system and / or the pipe-line system of one or more other relevant gas transporters: *Encourage closer cooperation between NG NTS and DN owners in respect of LDZ offtake meter audit and verification.*

c. The efficient discharge of the licensee's obligations under this licence in relation to security of supply: *The above incentives will result in a more accurate and consistent view of the system for the system operator – particularly relevant to security of supply considerations and system balancing.*

d. The securing of effective competition between relevant shippers, suppliers and DN operators: *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.*

f. Promotion of efficiency in the implementation and administration of the UNC: *Improves Xoserve's efficiency and lowers their costs over the long term. The 5 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 RG126 meetings highlights a significant drop in unreconciled energy well before the 5 year cut-off.*

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

The proposer believes that this proposal will increase incentives upon Transporters to ensure that all activities and operations that drive invoices (e.g. data recorded by NTS to LDZ offtake meters) are timely and accurate. In doing so, industry players will have a clearer view about the amount of energy flowing through the system.

4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

By limiting the period over which invoices can be issued, this proposal incentivises more timely and accurate invoicing, and supporting operations and activities. This should drive a greater and more accurate understanding amongst all players of the amounts of energy flowing through the system.

This proposal is expected to reduce Xoserve's costs over time by reducing the amount of data held (and database costs), time spent on financial adjustments and checking invoices as well as answering queries from Shippers.

b) The development and capital cost and operating cost implications:

There are no direct capital, development or operating costs on Transporters resulting from this proposal.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

As above, no such costs have been identified.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

There are effects on to the balance of risk faced by Transporters. In particular, Transporters will be unable to recover any amounts uninvoiced after five years after the chargeable event. However, Transporters will no longer be liable to pay credits after this time either.

Also given the amounts of unreconciled energy left in the market after 3 years are insignificant (as agreed by all participants in the review group using data from Xoserve) it is believed on balance, that the overall effect on contractual risk level is neutral.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Implementation is not required on this basis.

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

Changes to UK Link are believed to be extremely limited mainly being limited to ensuring that charges over five years old are not processed. It is believed that Xoserve could see marginally lower invoice processing costs in the longer term (if some charges are excluded for reasons of this time limitation). However, it is possible that Xoserve could see a corresponding increase in shorter term processing if as anticipated this proposal incentivises more timely and accurate Transporter operations.

Appropriate analysis needs to be undertaken by Xoserve to assess these costs and inform the market.

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Users will be required to change internal processes to ensure that the maximum 5 years cut off is implemented. This should in most cases be limited to “back office” processes only, and is not expected to be either complex or costly.

b) The development and capital cost and operating cost implications

Costs are expected to be minimal.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

Implications for User contractual risk are expected to be equal and opposite to the changes to risk faced by Transporters. Users will be protected from charges going back more than 5 years, but will no longer be entitled to receive credits going back beyond this period.

The only other risk faced by Users arises from USRVs (User Suppressed Reconciliation Values) as a hard cut over could be seen as incentivising Shippers to not resolve old items. Other modifications have been / are being raised to cover this gaps.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

Users and Transporters will benefit significantly from greater business certainty as a result of a defined close out period for retrospection.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

Legislative and regulatory obligations remain unchanged. Transporters may wish to review their contractual arrangements, for example in relation to LDZ meter auditing, in order to try and reduce the possibility of charges not being targeted.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

- ◆ Provides an enduring solution to a restricted invoice billing period
- ◆ Reduces contractual risk for Shippers and Transporters
- ◆ Reduces the extent of retrospection in invoices
- ◆ Saves Shippers costs when validating invoices

- ◆ Reduces exposure of new entrants to unforeseen costs
- ◆ Reduces costs to the industry of maintenance and storage of data
- ◆ Promotes data quality and data management improvements by Shippers
- ◆ Reduced potential size of any one-off reconciliation.
- ◆ Significantly increased business certainty for Shippers and Transporters
- ◆ Increased incentives on Transporters and Users to ensure that all charges and credits are processed in an accurate and timely way
- ◆ Reduced costs and efforts for Transporters and Users in sorting out errors over an extended time period

Disadvantages

- ◆ The restricted period could prevent elements of energy and transportation charges being attributed appropriately across market segments, thereby leading to socialisation of some costs. (However the market has already seen large one-off reconciliations causing cost pre 1/2/1998.)
- ◆ Potentially increased costs for Transporters in ensuring that processes are accurate and fit for purpose e.g. offtake meters are correctly calibrated.

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

Extensive dialogue has taken place on this subject under the auspices of Review Group 0126. The consensus of that Group is that a backstop on retrospection is desirable, and the further consensus is that this should be set at a rolling 4 years 365 days.

12 Detail of all other representations received and considered by the Proposer

No other representations received.

13 Any other matter the Proposer considers needs to be addressed

No other matters outstanding.

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

The proposer believes that this proposal is fully developed and ready for consultation. The following timescale is anticipated:

- ◆ Modification Panel consideration for consultation – June 21st

- ◆ DMR issued – June 25th
- ◆ Consultation closes – July 12th
- ◆ Modification panel consideration for implementation – July 19th
- ◆ Ofgem decision – September for implementation on April 1 2008 (Xoserve and Shippers need 6 months notice to change and test their systems).

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) TPD, Section S

Proposer's Representative

Chris Wright, (British Gas Trading)

Proposer

Chris Wright, (British Gas Trading)