

**CODE MODIFICATION PROPOSAL No xxxx**  
**Information Provision to Support Validation of Mod 640 Invoices**  
**Version x.x**

**Date:** 13/05/2010

**Proposed Implementation Date:** 01/10/2010

**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this Proposal**

**Background**

Network Code Modification Proposal 0640 was implemented with effect from 28 June 2004. This proposal was designed to place an incentive on Shippers to actively manage their SSP-LSP portfolio during the year to ensure that energy was correctly allocated.

UNC Modification Proposal 0095 was implemented in October 2006; this enables Mod 640 charges to be targeted at SSP-LSP crossers even when a change of registered Shipper has occurred during the year, applied in proportion to the duration of ownership in the period impacted.

Modification Proposal 0094 was also implemented in October 2006, this allowed Mod 640 charges to be applied to sites where the AQ had changed by less than 20% or 15,000 kWh. This therefore increased the number of sites that were close to the threshold and so would be exposed to Mod 640 charges. Modification Proposal 0136V was implemented in August 2007, this amended the UNC so that if a SSP site had been appealed to LSP between October and March 90% of the Mod 640 charges would apply, whilst SSP-LSP appeals outside of this window would be exposed to 100% of Mod 640 charges.

The mod 640 invoice is issued in March each year. However when this invoice is issued Shippers have no way of validating the invoice for SSP-LSP crossers that were no longer in their ownership when the annual AQ review took place. The Mod 640 invoice in March 2010 for Gas Year 2008/09 was £17.35m for the industry. From the information provided by xoserve to the 272 review group, roughly 2,840 or 19% of Supply Points that incurred a mod 640 charge for 2008/09 had more than 2 Shippers registered during the relevant period. This equates to a total Mod 640 invoice of £3.26m which Shippers are unable to validate.

In response to these issues EDF Energy raised UNC Review Proposal 0272 with a view of identifying what information could be provided to Shippers to allow them to validate their Mod 640 invoices when they were no longer the registered Shipper. This would allow Shippers to prepare for the settlement of this invoice and conduct the validations required to support the payment of an invoice of this scale.

This modification proposal represents the outcome of these discussions.

### The Modification Proposal

It is proposed that the UNC is amended so that the Gas Transporters are required to produce an annual report for the Supply Points that Shippers are no longer registered to that it is expected that they will receive a Mod 640 invoice for, containing sufficient information for them to validate the Mod 640 invoice.

In particular it is proposed that the UNC is amended so that:

- The Gas Transporters will produce an annual report by Shipper Short Code. This report will provide a snapshot as of 1 October of the Supply Points that Shippers have been registered to in the relevant period that they are no longer registered to, that it is expected they will receive a Mod 640 invoice for. This report will be delivered no later than [x Business Days] after 1 October.
- The report will also provide the following information:
  - Confirmation Reference Number
  - Opening and closing meter readings and all meter readings between these and their associated dates used for setting the AQ where available on sites and meters
  - Round the clock (TTZ) counts
  - Serial Number of the Meter and convertor if applicable – current and historic for the period being billed.
  - Date of change in asset data – meter and convertor if applicable
  - The names of all Shippers registered during the period being charged for under the Mod 640 invoice and their dates of registration [need to check from data protection angle]
  - All registered AQs and their dates of registration since the last annual AQ review – this is required to identify whether the AQ has been changed as a result of an AQ Appeal or AQ Amendment

For clarity it is recognised that not all of these sites covered by this report will ultimately incur Mod 640 invoices as the current registered Shipper may appeal the AQs after the snapshot date. However it is expected that publication at this time will allow Shippers sufficient time to run internal processes and validate the charges and initiate any inter-Shipper discussions.

It should be noted that this Modification does not propose to introduce any formal inter-Shipper discussion process of requirements and so these discussions will take place outside of any formal governance or requirements.

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

**Non-Urgent Modification 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 information to be provided in this Modification Proposal has been discussed within Review Group 0272, along with the draft Modification Proposal. It is recommended that this proposal be issued for Consultation.**

**2 User Pays**

- a) Classification of the Proposal as User Pays or not and justification for classification**

User Pays

The implementation of this proposal would introduce a new requirement on the Gas Transporters' Agency and there will be a cost associated with this new service. This meets both NGG NTS' and the GDNs' definition of a User pays service.

- b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

Development and Operational Costs 100% Shippers 0% Transporters

Mod 640 was introduced to protect RbD Shippers by ensuring that LSP sites were appropriately managed and energy allocated throughout the year. Implementation of this proposal will benefit Shippers by allowing them to validate their invoices.

- c) Proposed charge(s) for application of Users Pays charges to Shippers**

Development Costs [p/registered SSP at date of implementation]

Mod 640 invoices only apply to sites that cross from SSP to LSP in the year. Mod 640 was also designed to protect RbD Shippers it therefore appears appropriate to recover costs from this market.

Operational Costs [£/report]

The operational costs will be around the production of the annual report it is

therefore suggested that the charges are recovered by ordered report. This will be consistent with SLC A15.5.

**d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

[TBC]

**3 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**

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;*

Implementation would not be expected to better facilitate this relevant objective.

*Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligation under this licence;*

Standard Licence Condition A15.5 requires the Transporters to develop charges for User Pays Services that are cost reflective. This proposal will introduce a User pays service and so the Transporters will have to develop charges through an ACS amendment that meets the requirements laid out in Standard Licence Condition A15.5. If Ofgem accepts this change then it could be deemed that they believe that the proposed charges ensure that costs are targeted at the Shippers causing them to be incurred. Therefore implementation of this proposal and the associated ACS methodology will help to discharge Licence Condition A15.5, in line with this relevant objective.

*Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;*

Implementation of this proposal would allow Shippers to adequately validate their Mod 640 invoices prior to payment. This will support Shippers as:

1. Shippers will be able to fully validate their Mod 640 invoices, even when they are no longer the registered Shipper for the Supply point that they are incurring Mod 640 invoices for. This will aid back office processes as invoices can be validated and payments authorised. This should reduce back office costs as the Mod 640 sign off process so be shorter (due to the presence of supporting information) and will avoid internal queries

regarding the Supply Points and the associated Mod 640 Invoice. A reduction in Shipper costs should be beneficial to competition as these reduced costs could be directly targeted at competitive initiatives.

2. Further if the ability to validate Mod 640 invoices also reduced the volume of Mod 640 invoice queries raised, then this would also reduce Shippers' back office operational costs in raising and pursuing these invoices. A reduction in Shipper costs should be beneficial to competition as these reduced costs could be directly targeted at competitive initiatives.

At the margin implementation of this proposal may also reduce an insignificant barrier to entry by reducing costs and improving certainty around invoices and so theoretically provide a benefit to competition. This is based on the grounds that unknown costs (such as the inability to validate a Mod 640 invoice) represent a risk to companies and new entrants. This could represent a small barrier to entry as a new entrant would have to ensure that this risk is covered in its business plan. Removing these costs would therefore reduce a barrier to entry as these costs would not need to be covered and so be beneficial to competition.

***Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;***

Implementation would not be expected to better facilitate this relevant objective.

***Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;***

Implementation of this proposal would benefit administration of the UNC by ensuring sufficient data was provided to support Mod 640 invoices issued by the Transporters.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

**a) The implications for operation of the System:**

**None identified**

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

**The User Pays nature of this proposal should ensure that the Transporters are not exposed to any additional development and capital**

**cost and operating costs.**

- 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:**

**The costs of implementation should be recovered through the User Pays mechanisms identified in Section 2 of this Modification Proposal.**

- 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**

None identified

- 6 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)**

N/A

- 7 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**

**If Shippers choose to take this service, then they may have to amend their systems to support this. However due to the optional choice of receiving this report, it is expected that Shippers will only chose to take this report and amend their systems if they receive a benefit from the report.**

- 8 The implications for Users of implementing the Modification Proposal, including:**

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

**If Shippers chose to receive this report then it is likely that they will incur administrative and operational costs. These are likely to be manual, however it is expected that these costs will outweigh the benefits associated with improved transparency and validation of the Mod 640 invoice. If Shippers do not choose to receive this report then it is not expected that they will incur any additional costs.**

- b) **The development and capital cost and operating cost implications**

**If Shippers chose to receive this report then they may incur development and capital cost and operating costs to process this report. It is expected that the benefits of receiving this report will outweigh these costs. If Shippers do not choose to receive this report then it is not expected that they will incur any additional costs.**

- 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**

**None identified**

- 9 **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)**

**None identified**

- 10 **Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

None identified

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

**Advantages**

- Replicates standard practice of providing sufficient information to validate and settle an invoice
- Greater certainty for Shippers when carrying out their settlement and finance functions
- Improved Transparency
- Potential for reduced Mod 640 invoice queries
- Supports the potential introduction of a negotiation process to ensure that Mod 640 charges are targeted at the appropriate Shippers

**Disadvantages**

None identified

- 12 **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)**

- 13 **Detail of all other representations received and considered by the Proposer**

- 14 **Any other matter the Proposer considers needs to be addressed**

None identified

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

Implementation date of [1 October 2010], based on an Authority decision published on or before [TBC]

Implementation date of [1 October 2011], based on an Authority decision published after [TBC], but on or before [TBC]

If the Authority decision is published after the [TBC] the suggested flexible implementation date is [one (1) month] after an Authority decision being published

**16 Comments on Suggested Text**

**17 Suggested Text**

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** S

**Proposer's Representative**

*Stefan Leedham*

**Proposer**

*EDF Energy*