

Draft Modification Report
Limitation on Retrospective Invoicing and Invoice Correction
Modification Reference Number 0152
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification 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.

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Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (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.

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;*

Encourage closer cooperation between NG NTS and DN owners in respect of LDZ offtake meter audit and verification.

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

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.

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;*

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

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;

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 the 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 the Modification Proposal, including:

a) 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) Development and capital cost and operating cost implications:

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

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

As above, no such costs have been identified.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

As above, no such consequences have been identified.

5 The consequence of implementing the Modification Proposal on the level

of contractual risk of each Transporter under the Code as modified by the 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.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and 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 of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

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.

Development and capital cost and operating cost implications

Costs are expected to be minimal.

Consequence for the level of contractual risk of Users

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 gap.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, 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 each Transporter and each User and Non Code Party of implementing the Modification Proposal

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

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 (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

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 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required on this basis.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme for works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

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).

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Uniform Network Code – Transportation Principal Document

Section E – Daily Quantities, Imbalances and Reconciliation

Add new paragraph 1.3.9. "No Individual NDM Reconciliation, DM Reconciliation Individual CSEP Reconciliation or Aggregate NDM Reconciliation shall be undertaken in respect of any Day or period prior to the Code Cut Off Date."

Section S – Invoicing and Payment

Add new paragraph.1.4.4 " No Invoice Document shall contain an Invoice Item or Invoice Amount that shall relate to any Day or period prior to the Code Cut Off Date."

Uniform Network Code – General Terms

Section C – Interpretation

Add new definition

"**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-4

For and on behalf of the Relevant Gas Transporters:

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