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

UNC Modification Proposal 0152 "Limitation on Retrospective Invoicing and Invoice Correction" raised by British Gas Trading (BGT), proposes to limit the length of time that invoices can be retrospectively applied to and set this to a four to five year period. The Proposal by BGT is based on the work carried out by the UNC Modification Review Group 0126 "Restriction of Invoice Billing Period". The final report prepared by the group can be found on the Joint Office website (www.gasgovernance.com).

All Review Group members were in agreement with the general principle of a restricted invoice billing period, the business rules that would need to operate and the benefits of the Proposal. The only element that was not agreed upon was the most suitable duration that should be applied, a maximum period of four to five years or a maximum period of five to six years.

The BGT proposal has put forwarded the option of the four to five year period (known as the 5 year model). This Alternative Proposal has been raised to ensure that all aspects of the Review Group Report can be considered by the industry and ultimately by the Authority and is based on the five to six year period (known as the 6 year model). The Proposer believes that this is the most appropriate way to take forward the work carried out by the Review Group and will allow a full and proper consultation to take place.

Currently UNC invoices can cover any period between the current previous month and 1 February 1998. Invoices are regularly produced for adjustments and reconciliations covering this entire period or a substantial portion of it. This requires xoserve and Shippers to carry out 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 which may adversely impact Shippers and Suppliers ability to price competitively.

This Modification Proposal is designed to restrict the invoice billing period to a maximum of 5 years and 365 days (defined by Review Group 0126 as the '6 year model') on a rolling, hard cutover basis, using a pre-determined implementation date.

For clarity, assuming a first implementation in April 2008, with effect from 1 April 2008 all charges raised from this date and up to 31 March 2009 are restricted to an earliest start date of 1 April 2003.

In April 2009, the restricted invoicing billing period will roll-forward one year.

With effect from 1 April 2009, all charges raised from this date and up to 31st March 2010 will be restricted to an earliest start date of 1st April 2004.

The gas industry currently works to a static, ever increasing, restricted billing period, the earliest date invoices can include is 1 February 1998. This Modification Proposal is intended to adjust, on an annual basis, this back stop date. This will lower the risk faced by market participants and reduce the amount of data the industry is required to hold.

BGT raised a Review Proposal to find solutions to Ofgem's issues with Modification Proposals 0117 and 0122. Review Group 0126 was formed and has met since January 2007. Following discussions at the Review Group, there was a consensus that an open ended retrospection regime is not appropriate. The Group believes that UNC should contain a rolling period for invoicing retrospection. All but one of the participants of Review Group 0126 supported a maximum billing period of 4 years and 365 days. This representative, the NTS Shrinkage Manager, preferred a period of 5 years and 365 days (the 6 year model).

The Review Group recommends that (from final Review Group 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 User Suppressed Reconciliation Values (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 5 years and 365 days as the limit for all UNC invoicing activities (as identified within the Review Group Report). It is the intention of this proposal that:

♦ The 5 year cut off should apply from 1 April in any given year and, depending on the timescales for implementation, the first point in time that this could take place is 1 April 2008.

♦ The business rules developed by Review Group 0126 will apply to this Proposal. These rules include; hard cutover rules (including reconciliations and adjustments), treatment of reconciliations and adjustments during the cutover period, Reconciliation by Difference (RbD) treatment, timed-out USRVs and rules around interest charges.

♦ The 6 year model will apply equally to debits and credits. In this respect, for example, should a further NTS to LDZ meter error come to light after implementation of this proposal, maximum of 5 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 invoicing activities, as defined above and within the 0126 Review Group Report, governed by the UNC.

2 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;

- Gas Transporters already have obligations 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. The implementation of this Proposal will reinforce these obligations and the need for timely and accurate information.
- 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 sub-paragraph (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;

- Reinforces the need for close cooperation between NG NTS and DN owners in respect of LDZ Offtake metering activities.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (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 sub-paragraphs (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.
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Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (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;

- No impact on this Relevant Objective would be expected.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (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 6 year model gives sufficient time to reconcile the majority of reconcilable sites (some sites will never reconcile as they no longer exist – no matter the length billing period introduced).

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 Alternative Modification Proposal will reinforce incentives on all parties to ensure that all activities and operations that drive the invoicing process 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 all industry participants have increased incentives for 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:

xoserve, on behalf of the Transporter, will need to make core system changes and modify / introduce offline processes in order to successfully implement this Proposal. The cost of doing this is not yet known but is not thought to be significant in comparison to the benefits implementation of this Proposal would bring.

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

No direct cost recovery has been proposed.

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

No direct cost recovery has been proposed.

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 industry participants, including Transporters, as they would be unable to recover any amounts that had not been invoiced which fall before the cut off date.

Also given the amounts of un-reconciled energy left in the market after such periods are small (as agreed by all participants in the Review Group using data from xoserve) it is believed that the overall effect on contractual risk level will be negligible.

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

xoserve, on behalf of the Transporter, will need to make core system changes and modify / introduce offline processes in order to successfully implement this Proposal. The cost of doing this is not yet known but would not be significant in comparison to the benefits implementation of this Proposal would bring.

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 6 years cut-off is implemented.

Development and capital cost and operating cost implications

Costs are expected to be minimal.

Consequence for the level of contractual risk of Users

There are effects on to the balance of risk faced by industry participants, including Users, as they would be unable to recover any amounts that had not been invoiced which fall before the cut off date.

Also given the amounts of un-reconciled energy left in the market after such periods are small (as agreed by all participants in the review group using data from xoserve) it is believed that the overall effect on contractual risk level will be negligible.

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.

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 in both Domestic and I&C market sectors.
- Reduces the extent of retrospection in invoices
- Saves Shippers costs when validating invoices
- Reduces exposure of new entrants to the SSP market of unforeseen costs
- Reduces exposure of existing I&C shippers to unforeseen costs
- Reduces costs to the industry of maintenance and storage of data inline with statutory obligations
- 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. The data provided to the Review Group has shown that this is an extremely small percentage of total energy.

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 represented by the original Proposal 0152. This Alternative Proposal puts forward the other option specified in the Review Group Report, the '6 year model'.

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)

This Alternative Proposal could follow the timetable outlined in Proposal 0152; however, if this is not achievable, due to process delays or insufficient time for system changes, then implementation should be delayed until 1 April 2009.

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

For and on behalf of the Relevant Gas Transporters:

Tim Davis

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