

**CODE MODIFICATION PROPOSAL No 0152AV**  
**Limitation on Retrospective Invoicing and Invoice Correction (Alternate)**  
**Version 1.0**

**Date:** 19/07/2007

**Proposed Implementation Date:** 1/4/2008, to apply annual rolling cut off period starting with 1/4/2002 as the first back stop date.

If this date cannot be achieved for legitimate reasons, this proposal should be implemented as soon as possible in 2008, again with 1/4/2002 as the first backstop date.

**Urgency:** Non Urgent

**1 The Modification Proposal**

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

UNC Modification Proposal 0152v "Limitation on Retrospective Invoicing and Invoice Correction" raised by British Gas Trading (BGT), proposes to limit the ability of transporters to adjust invoices beyond a four to five year period. The proposal by BGT is based on the assumption that this proposal will have an equal impact on all market sectors and ignores statute which refers to a period of six years. Statoil U.K. Ltd (STUK) does not believe this to be an appropriate, proportionate or cost reflective solution.

STUK, as an alternative, proposes to restrict the invoice billing period to a maximum of 6 years 365 days on a rolling, hard cutover basis, using an implementation date set up in advance. This would have the same benefits as the BGT proposal but would limit many of the disadvantages the BGT proposal suffers.

The STUK proposal is in line with English statute as the Transporter would be able to adjust or reconcile for 6 years. This ensures that when past errors are discovered within the statutory period then the Shipper is able to correct this with the Transporter.

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 6 years and 365 days (known here as the 6 year model) on a rolling, hard cutover basis, using an implementation date set up in advance.

The proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-6 years. At this point, the retrospective billing period will be 6 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-6, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 6 years 364 days by close of business on 31 March y+1.

Come the following 1 April, the backstop date will be advanced by 1 year, resetting the retrospective billing period to 6 years 0 days.

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. This proposal differs very little from the BGT proposal in this regard as xoserve would have to hold data for 6 years under statute.

Review Group 126 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. There were different views within the group as to what that period should be set to.

While BGT's proposed 4/5 year period received the greatest support amongst the Domestic Shippers participating in Review Group 126, the data supplied by Xoserve and the Shrinkage Provider clearly shows that after 6 years there is very little socialisation of costs. The 6 year period would also reduce the risk to Shippers (particularly in the large I&C sector) of a consumer claim for the correction of a previous error.

The Review Group recommended 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 hard cut-off period of 6 years to be implemented annually as the limit for all retrospective Transporter to Shipper transactions and visa versa. It is the intention of this proposal that:

- ◆ The 6 year cut off should apply from 1/4/2008, therefore depending on the business rules written by Review Group 126.
- ◆ The 6 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 6 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.**

As the BGT modification has been already sent to consultation STUK request that this modification be considered under the same timescales.

**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**

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.

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.

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.

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.

Promotion of efficiency in the implementation and administration of the UNC: 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). The Xoserve data and Shrinkage Operator data presented at the RG126 meetings highlights that after a 6 year cut-off the remaining energy would be small reducing the risk of socialisation of energy.

### **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 six 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 6 years are tiny (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.

**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 six 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 6 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 6 years, but will no longer be entitled to receive credits going back beyond this period. As this is in line with current statute this will ensure a Shipper is not contractually disadvantaged.

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 which is inline with existing legislation.
- ◆ 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 within bounds set by statute.
- ◆ 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 a very small socialisation of 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. This modification reflects the principles that group agreed and considers the comments Ofgem made in its decision letter to modification proposal 642 and UNC modifications 117 and 122.

### **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 should be considered in the same timescales as modification 152 "Limitation on Retrospective Invoicing and Invoice

Correction" raised by British Gas Trading.

**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**

Richard Street - Statoil UK

**Proposer**

Richard Street - Statoil UK