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

Date: 23/07/2007

Proposed Implementation Date: 1/04/2008, to apply annual rolling cut off period starting with 01/04/2003 (see section 14 below)

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 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) under Closed Modifications.

All Review Group members were in agreement with the general principle of a restricted invoice billing period, the business rules (see Appendix 1) 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 (0152V) or a maximum period of five to six years (this Proposal).

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 a five to six year period (known as the 6 year model). We believe that this is the most appropriate way to take forward the work carried out by Review Group 0126 and will allow a full and proper consultation to take place.

Currently UNC invoices can cover any part of the period dating back to 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.

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.

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.

This Alternative Proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-5 years. At this point, the retrospective billing period will be 5 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-5, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 5 years 365 days by close of business on 31 March y+1.

On each subsequent 1 April, the backstop date will be advanced by 1 year, resetting the retrospective billing period to 5 years 0 days. This has become known within Review Group 0126 as the 6 year model, on a rolling, hard cutover basis, using an implementation date set up in advance.

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 (detailed in Appendix 1);

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 (see Appendix 1). 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.

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 this Proposal has been raised as an Alternative Proposal it should follow the same timescales as the original Modification Proposal 0152V, as per UNC Modification Rules (6.4.1).

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:

- 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.

b. As a combined pipe-line system and / or 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.

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.

e. The provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards:

- No impact on this Relevant Objective would be expected.

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 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 this 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 this Modification Proposal, including:

a) The 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) The 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) 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:

No direct cost recovery has been proposed.

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 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.

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

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 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.

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

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 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.

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 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 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 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 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 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

This Alternative Proposal recommends an implementation date of 1 April 2008. The DMR is to be considered at the UNC Modification Panel meeting on 16 August 2007 following a shortened 10 day consultation period. If the 1 April 2008 is not achievable, due to process delays or insufficient time for system changes, then implementation should take place as soon as reasonably practical..

15 Comments on Suggested Text

n/a

16 Suggested Text

No text provided

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) S

Proposer's Representative

Liz Spierling (Wales & West Utilities)

Proposer

Simon Trivella (Wales & West Utilities)

Appendix 1 Illustrations of each business rule

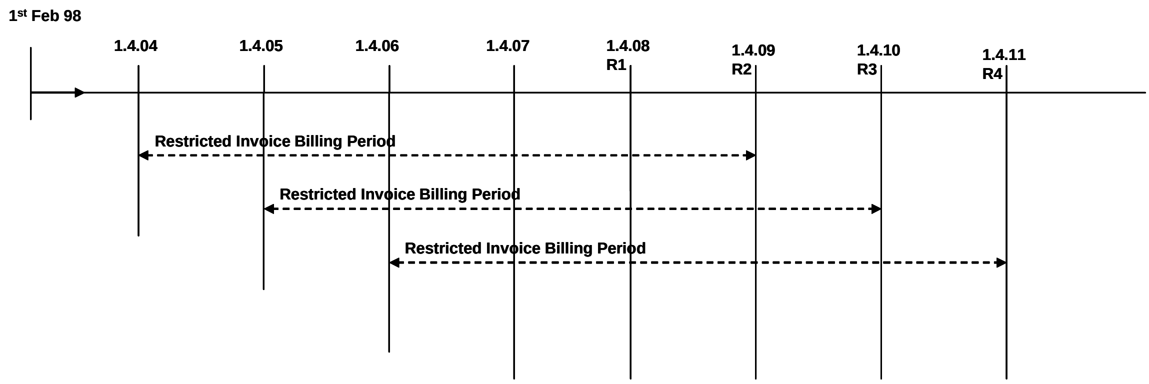
1. Restricted invoice billing period 5 years and annual "roll-forward"

The invoice billing period will be restricted to a maximum period of 4 years 365 days.

Assuming a first implementation in April 2008

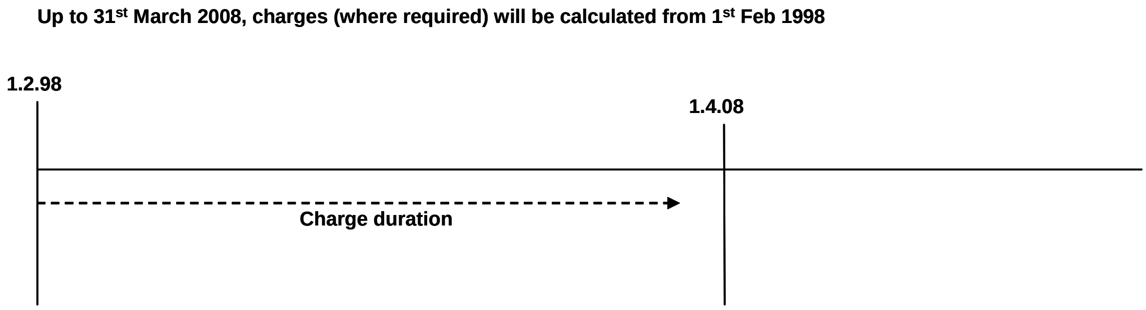
With effect from 1.4.08 all charges raised from this date and up to 31st March 2009 are restricted to an earliest start date of 1st April 2004

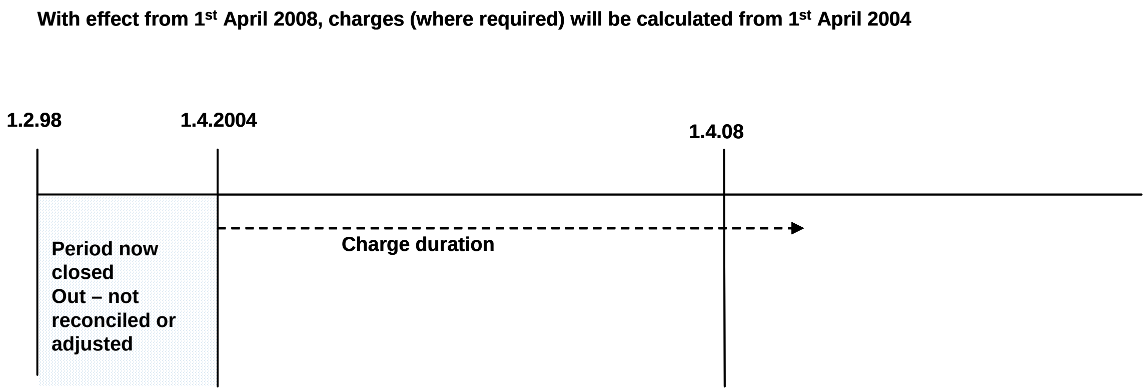
In April 2009, the restricted invoicing billing period will roll-forward one year. With effect from 1.4.09, all charges raised from this date and up to 31st March 2010 will be restricted to an earliest start date of 1st April 2005.



2. Hard cutover rules

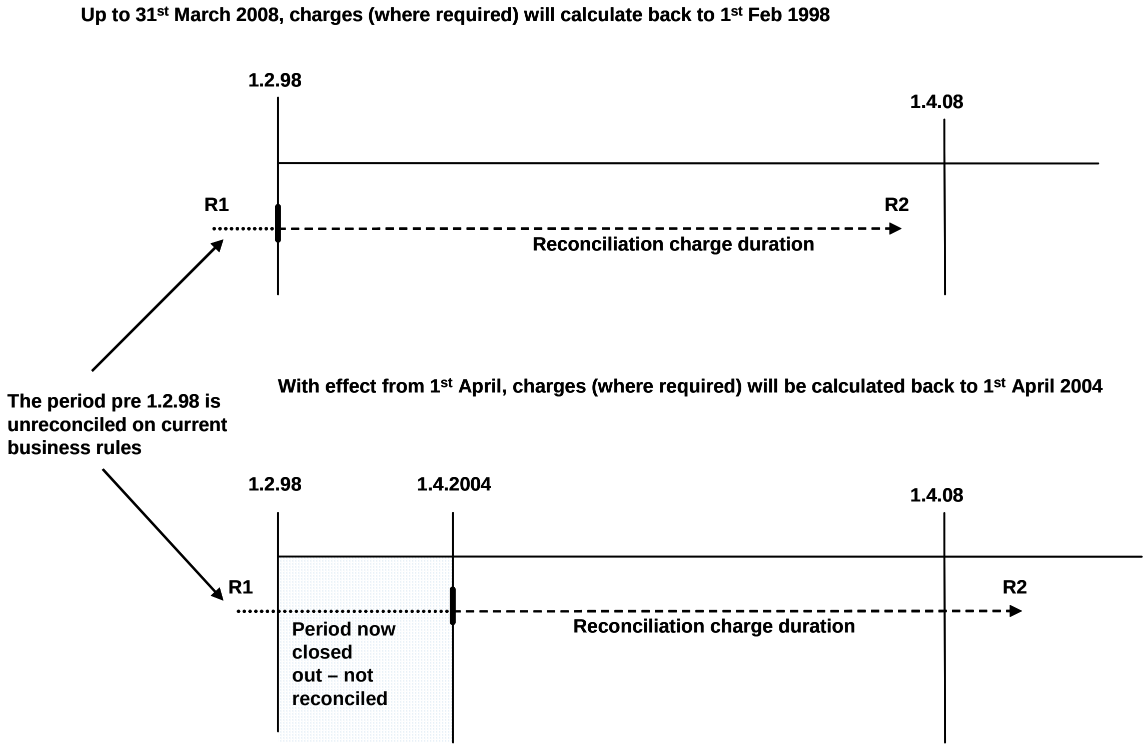
Once the restricted invoice billing period rolls forward, no further adjustment is made to energy and charges that are now “closed-out”.





3. Hard cutover – reconciliation

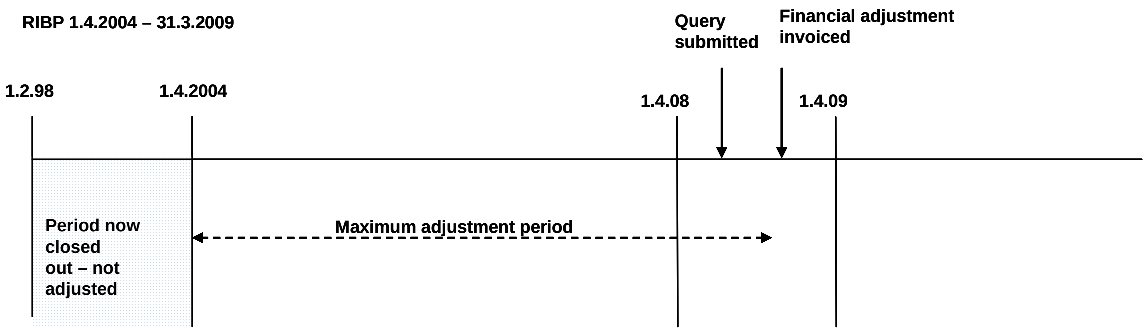
The following diagrams illustrate the hard cutover principles applying to reconciliation.

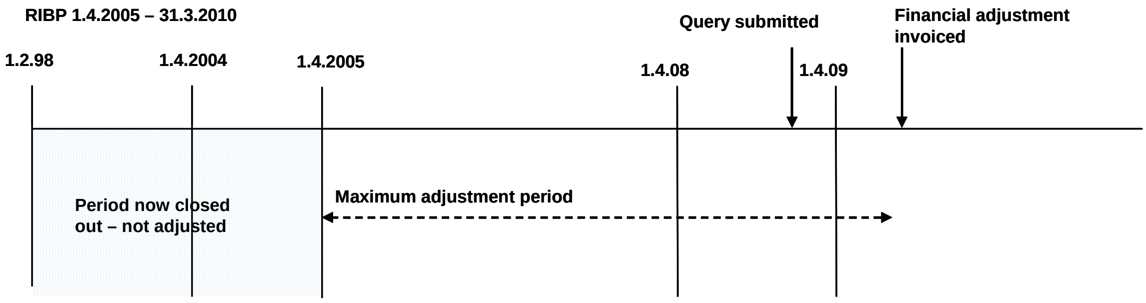


It was noted in the Review Group that the restricted invoice billing period and the annual roll-forward only have an impact on those reconciliations that extend beyond 5 years. The majority of deemed energy is reconciled within 2 – 3 years of the deemed energy.

4. Hard cutover – adjustments

The following diagrams illustrate the hard cutover principles applying to reconciliation. Note that the maximum allowable invoice period is set when the financial adjustment is invoiced (tax point date) not when the query is submitted. The two diagrams illustrate this point.





It was noted in the Review Group that the restricted invoice billing period and the annual roll-forward only have an impact on those adjustments that extend beyond 5 years. The majority of adjustments are addressed within 2 to 3 years of the invoice issue.

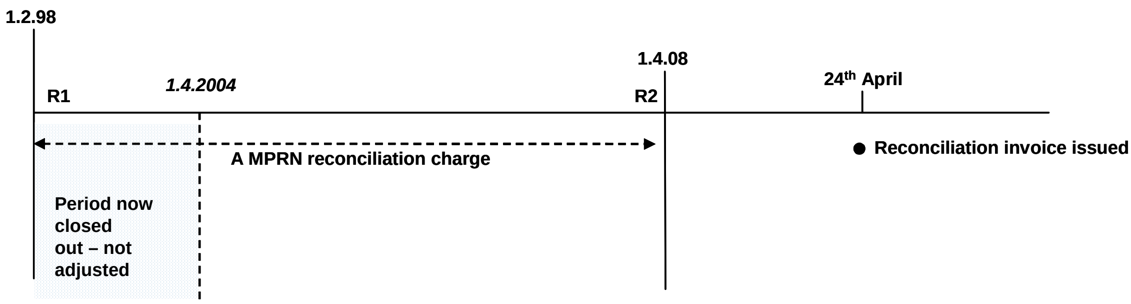
5. Business rule – reconciliations and adjustments in progress over the "cutover" period

Reconciliations, and to some extent adjustments, are generally invoiced a month in arrears from the activity that generates the charging activity. For example, where a reconciliation read is received in March, the charge is calculated during March and is issued on the March reconciliation invoice at M+18 i.e. the March invoice is issued sometime in late April.

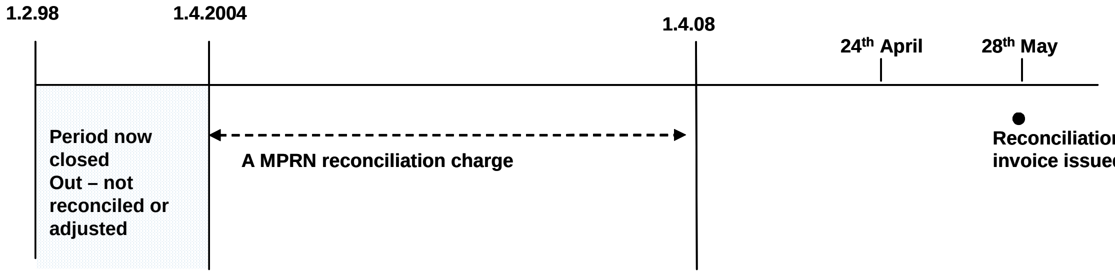
Under a restricted invoice billing period regime, the period will roll forward annually on 1st April.

A reconciliation charge on the March invoice (calculated from the read received in March) may contain charges back to the earliest start date of that restricted invoice billing period. However, the March invoice containing this reconciliation charge is not issued until the 18th business day of April, when the restricted invoice billing period has rolled forward and a new start date for reconciliations is now in effect. To avoid recalculating those reconciliation charges that pre-date the earliest start date in force when the invoice is issued a business rule will be written to allow these reconciliation charges to be valid.

In the example below, the reconciliation invoice issued on 24th April 2008 contains a reconciliation charge that starts from 1st February 1998. On 1st April 2008, the restricted invoice billing period rolled forward to 1st April 2004, and the charges calculated in March 2008 and issued in April 2008 are deemed to be valid.



Any reconciliation reads received from 1st April 2008 onwards or any adjustments calculated from 1st April 2008, will have a reconciliation or adjustment charge start date of 1st April 2004. As illustrated below:



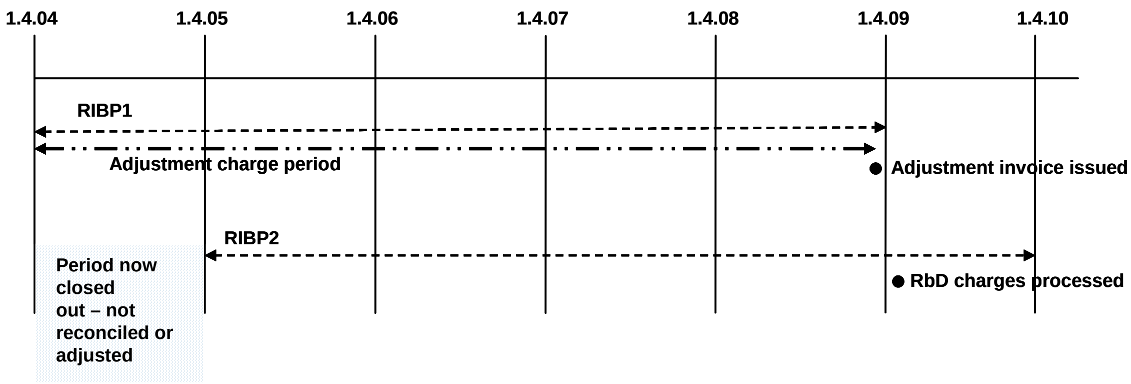
6. Business Rule – reconciliation by difference treatment

Reconciliation and adjustment charges are processed as a “primary” charge. Each reconciliation and adjustment charge will generate a “secondary” activity – an equal and opposite to the smaller supply point market through the Reconciliation by Difference (RbD) charges.

Not all RbD charges are issued at the same time as the “primary” charge. Some RbD charges are processed a month later. This occurs where the reconciliation or adjustment is processed offline from the main invoice activities and there is not time to process both “primary” and “secondary” charges within the same month.

A business rule is required to allow all RbD charges to flow in full (regardless of restricted invoice billing period) to ensure that energy in each market sector remains whole.

The diagram below illustrates this point



This business rule is specifically driven by the “primary” charge event. All “primary” charges must have their associated “secondary” charge processed in full.

7. Business rule User Suppressed Reconciliation Volumes (USRVs)

Reconciliation charges that exceed certain tolerances are suppressed and do not appear as a charge on an invoice. The USRV are submitted to shippers for resolution. As previously illustrated, a reconciliation charge can extend back to the earliest start date.

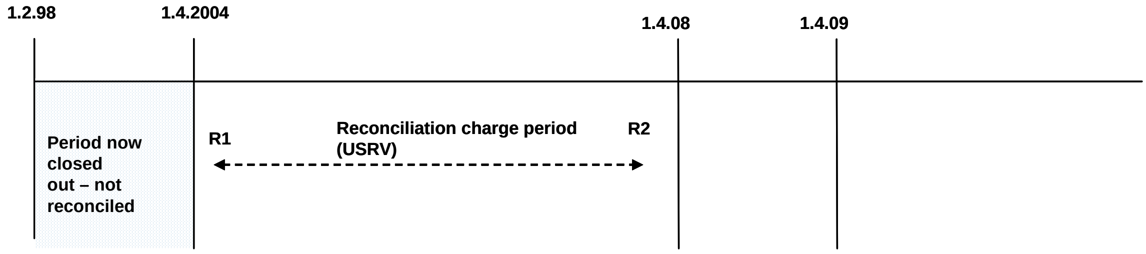
A business rule is required to deal with periods of a USRV that become “timed-out” as the restricted invoice billing period rolls forward.

The Review Group considered options for releasing the USRV in full prior to the 1st April roll-forward, or holding the USRV indefinitely until it is resolved by the shipper. Neither of these options were considered to meet the terms of reference of the Review Group.

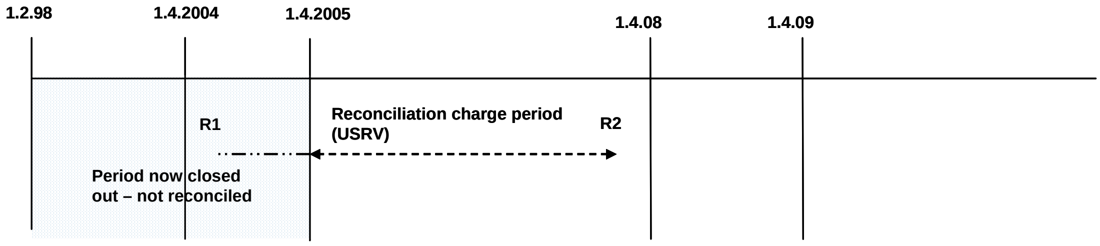
The Review Group have recommended that, to meet the principles outlined above, the USRV is recalculated as required to remove any charges for the period that has become closed out.

The diagrams below illustrate this business rule.

In February 2008, a reconciliation charge is calculated which results in a USRV



In April 2009, part of the reconciliation charge is now “timed out”. The reconciliation is recalculated, and may or may not pass the tolerance filter.

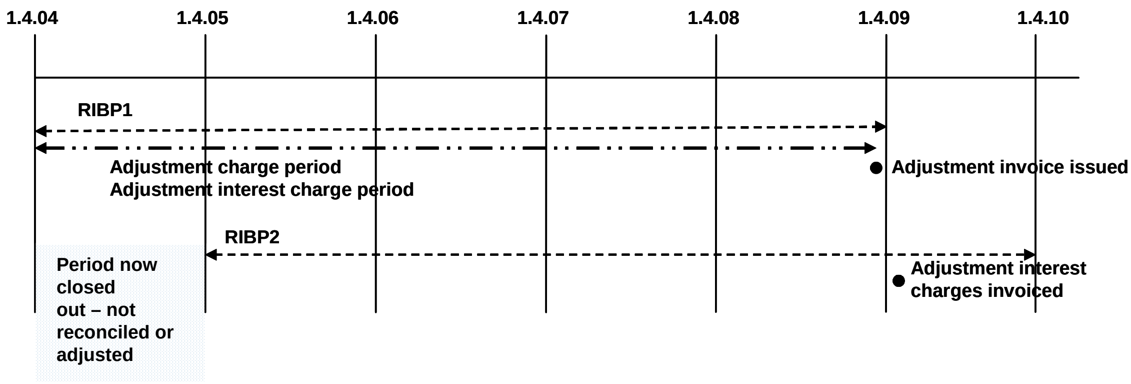


8. Business rule - interest charges

Any applicable interest charges associated with an adjustment are generally processed within one month of the adjustment being issued.

A business rule is required to ensure that the full value of interest is applied to the original adjustment regardless of when the interest invoice is issued. This business rule is required for the occasions where the interest invoice is issued in a new restricted invoice billing period and the adjustment charges were issued in the previous restricted invoice billing period and where part of the adjustment charges are in the period that is now closed out.

The diagram below illustrates this rule.



In the above example, the adjustment charges are invoiced in March 2009.
The business rules must allow the adjustment interest charges to flow in full, including those relating to the period 1st April 2004 to 1st April 2005, which is now "closed-out".