Joint Office of Gas Transporters

Stage 03: Draft Modification Report

What stage is this document in the process?

01 Proposal

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

0398:

Limitation on Retrospective Invoicing and Invoice Correction (3 to 4 year solution)

This modification seeks to reduce the reconciliation window so that it is set at a minimum of 3 years and a maximum of 3 years and 364 days.

Responses invited by 09 January 2012.

High Impact:
None

Medium Impact:
Shippers, National Grid NTS Shrinkage Provider

Low Impact:
Gas Distribution Networks, National Grid NTS

Contents

About this document:

This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 09 December 2011. The close-out date for responses is 09 January 2012. The Panel will consider the responses and agree whether or not this modification should be made.

Any questions?

Contact:
Joint Office

enquiries@gasgovernance.co.uk

0121 623 2115

Proposer:
Simon Trivella

simon.trivella@wwutilities.co.uk

07813 833174

Xoserve:

commercial.enquiries@xoserve.com

1 Summary

Is this a Self-Governance Modification

The Modification Panel determined that this is not a self-governance modification.

Why Change?

Under the current UNC rules (as implemented by modification 0152V on 01 April 2008) all retrospective invoices are limited to a period between 4 years to 4 years and 365 days. The rules behind 0152V were developed as part of modification review group 126, and at the time there was a view within industry that the timeline for reconciliations should be shortened further. However, there was reluctance to bring this forward at the time as this was perceived to be too large a step for industry and experience of working with a 4-5 year model was required. The industry has now had over 3 years experience of working with a 4-5 year reconciliation window and recent data presented to 28 April 2011 Distribution Workgroup has demonstrated that reducing the window further would not have a material impact on energy allocation. Reducing the reconciliation window would; however, reduce the risk exposure of Shippers to large and unexpected bills.

Solution

The proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-3 years. At this point, the retrospective billing period will be 3 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-3, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 3 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 3 years 0 days.

Impacts & Costs

Initial discussions with Xoserve have suggested that this proposal could be implemented for minimal (if any) cost, provided that it coincided with the annual re-setting of the backstop date – i.e. 1 April.

Modification 0395 seeks to amend the limitation period to 2 to 3 years. This will have an impact on processes such as the 2 year meter inspection Supplier obligation and also on USRVs (as the process allows for them to be unresolved for up to 30 months). There may be other impacts from Modification 0395 which will be assessed by the relevant Workgroup.

The Workgroup have not identified any UNC (or other) process that would be significantly impacted by the implementation of this proposal. [The Workgroup have considered the Theft of Gas and Offtake Meter Errors processes but have not identified any significant impacts that would prevent implementation in April 2012.]

Implementation

Proposed implementation dates are:

- 01 April 2012 if a decision is received prior to 01 March 2012
- 01 April 2013 if a decision is received prior to 01 March 2013

Why is RbD a risk?

In order to manage their risk Shippers tend to hedge their gas requirements. However, in order to hedge against price risk the volume must be known. The volume of RbD on a monthly basis is not known and so it is not possible to hedge effectively against this.

- If a decision is received after 01 March 2013 implementation should occur in the following April.

Modification Proposal 0395 has a proposed implementation date (for the change to the back stop date element) of April 2013, this modification proposal offers a suitable transition from the current 4-5 year billing period down to a 2-3 years (if Modification Proposal 0395 is also implemented).

The Case for Change

When UNC Review Group 0126 was discussing the concept of a line in the sand there was always an aspiration that this would be reviewed at a later date to see if a further reduction was feasible / suitable. This modification along with modification 0395 will allow for such a review to take place.

This proposal would also reduce the risk exposure to Shippers who are currently exposed to retrospective invoices of up to 5 years, although most have agreed not to back bill customers by more than 1 year. Reducing the risk that Shippers are exposed will be beneficial to competition amongst Shippers.

Recommendations

All parties are invited to consider whether they wish to submit views regarding this modification.

2 Why Change?

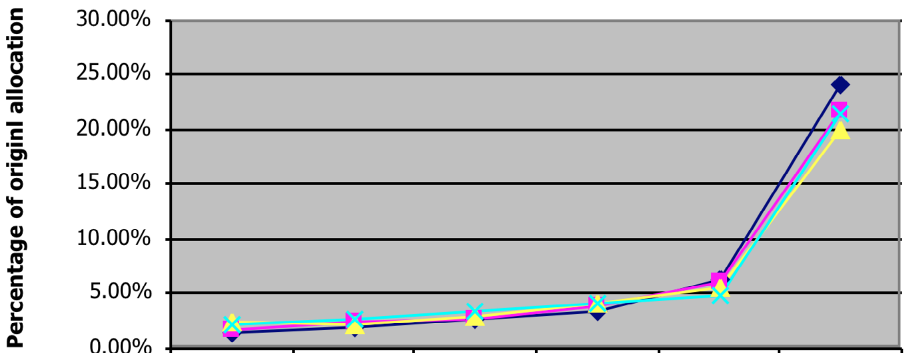
UNC Modification 0152V

Under the current UNC rules (as implemented by modification 0152V on 01 April 2008) all retrospective invoices are limited to a period between 4 years to 4 years and 365 days. The rules behind 0152V were developed as part of modification review group 0126, and at the time there was a view within industry that the timeline for reconciliations should be shortened further. However, there was reluctance to bring this forward at the time as this was perceived to be too large a step for industry and experience of working with a 4-5 year model was required. The industry has now had over 3 years experience of working with a 4-5 year reconciliation window. Given that the industry has had time to get used to working with a 4-5 year window it would appear appropriate to look to shorten the window further to provide additional financial certainty to Shippers.

Un-reconciled Energy

At the 28 April 2011 Distribution Workgroup, Xoserve provided data that demonstrated that reducing the window further may not have a material impact on energy allocation. An extract of the data that was presented is shown below in Table 1. It is worth noting that although this energy has not been reconciled this does not mean that it has been mis-allocated – only that a meter reading has not been provided to confirm correct allocation. Reducing the reconciliation window would therefore have a minimal impact on energy allocation but would reduce the risk exposure of Shippers to large and unexpected bills.

Table 1: Percentage of un-reconciled energy



	-5	-4	-3	-2	-1	0
2007	1.48%	1.86%	2.67%	3.38%	6.30%	24.09%
2008	1.82%	2.45%	2.60%	3.97%	6.05%	21.74%
2009	2.42%	2.24%	3.04%	4.09%	5.54%	19.97%
2010	2.15%	2.72%	3.39%	4.13%	4.99%	21.47%

Risk Reduction

Although the volume of unallocated energy is relatively small after 2/3 years, Shippers remain exposed to the risk that they will be exposed to a large unexpected debit. This risk will carry a risk premium that ultimately will have to be born by customers. Reducing the risk exposure of Shippers and Suppliers will reduce a potential barrier to entry, thereby benefitting competition.

3 Solution

The proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-3 years. At this point, the retrospective billing period will be 3 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-3, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 3 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 3 years 0 days.

This limit will cover all retrospective Transporter to Shipper transactions and visa versa. It is the intention of this proposal that:

- The 3-4 year model (applying the 3 yrs 0 days to 3 yrs 364 days period of retrospection, as set out above) should apply from 1/4/2012.
- The 3-4 year model will apply equally to Transporter debits and credits.
- This proposal applies to all Transporter to Shipper and Shipper to Transporter transactions governed by the UNC.

Compatibility with Modification 0395

Modification Proposal 0395 proposes that the existing 4-5 period is reduced to 2-3 years. The proposed implementation date (for the back stop date element) of Modification Proposal 0395 is April 2013. Modification Proposal 0398 (the 3-4 year model) could be used as a transitional arrangement between, April 2012 and March 2013 (i.e. implement modification proposal 0398 in April 2012 and then 0395 in April 2013).

Why not adopt a 2-3 year model as proposed by Modification 0395?

Following Workgroup discussions it may be determined that a 2-3 year model should be adopted. However, if this is not the case, or if it cannot be implemented for 1 April 2012, then we believe the 3-4 year model could be implemented in April 2012. This would still allow for the 2-3 year model to be implemented in April 2013 if appropriate.

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives d and f.**

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Improved competition amongst Shippers as a result of reduced risk exposure
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code	Marginal benefit to industry as the period for invoicing is reduced
g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	None

Achievement of relevant objective (d) "*the securing of effective competition between Shippers*"

Some Workgroup members consider this modification 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.

Some workgroup members consider the modification is likely to cause a greater discrepancy between the UNC and Statute of Limitations, therefore preventing Shippers backing off costs within customer contracts.

Achievement of relevant objective (f) "*promotion of efficiency in the implementation and administration of the Code*"

Some members consider all industry parties may see minor reductions in costs due to a reduction in reconciliations. The 3 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 Distribution Workgroup meetings highlights a significant drop in un-reconciled energy well before the cut-off date.

However, some members consider a shorter timescale to resolve issues may reduce the rigor applied to reconciliations. Though some members felt this provides certainty in contractual position within UNC, some others did not agree with this position.

5 Impacts and Costs

Wider Industry Impacts

None identified.

Costs

Initial discussions with Xoserve have indicated that they update the backstop date every year, which is a manual process and requires some system testing. Provided that this proposal is implemented in line with the annual update it is expected that the only impact will be a requirement to conduct some additional testing. It is not expected that these costs will be material.

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
This proposal is not a User Pays Modification, as it will not create any User Pays Services or Charges.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
n/a
Proposed charge(s) for application of Users Pays charges to Shippers
n/a
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
n/a

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• None
Operational Processes	• Slight variation to an existing annual process (year 1 only)
User Pays implications	• None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• None

Impact on Users	
Development, capital and operating costs	• None
Contractual risks	• Some Users consider implementation of this modification will increase their financial exposure through supply contracts. Others disagreed with this view. •
Legislative, regulatory and contractual obligations and relationships	• None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• None
Development, capital and operating costs	• None
Recovery of costs	• None
Price regulation	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None
UNC Committees	• None
General administration	• None

Impact on Code	
Code section	Potential impact
General Terms – Section C	• Update of definition of Cut Off Date

Impact on UNC Related Documents and Other Referenced Documents

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location: http://www.gasgovernance.co.uk/sites/default/files/0565.zip

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	• None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	• None
Storage Connection Agreement (TPD R1.3.1)	• None
UK Link Manual (TPD U1.4)	• None
Network Code Operations Reporting Manual (TPD V12)	• None
Network Code Validation Rules (TPD V12)	• None
ECQ Methodology (TPD V12)	• None
Measurement Error Notification Guidelines (TPD V12)	• None
Energy Balancing Credit Rules (TPD X2.1)	• None
Uniform Network Code Standards of Service (Various)	• None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	• None
Gas Transporter Licence	• None

Other Impacts	
Item impacted	Potential impact
Security of Supply	• None
Operation of the Total System	• None
Industry fragmentation	• None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	• None

6 Implementation

Proposed implementation dates are:

- 01 April 2012 if a decision is received prior to 01 March 2012
- 01 April 2013 if a decision is received prior to 01 March 2013
- If a decision is received after 01 March 2013 implementation should occur in the April the following year subject to 30 days' notice.

Some members were concerned that an implementation decision during March 2012 would not provide sufficient warning to prepare for changes in Shipper systems during April 2012.

The Workgroup considered that there may be merit in asking respondents to state their preferred implementation timescale in representations.

7 The Case for Change

In addition to that identified above, the Workgroup has identified the following:

Advantages

None identified

Disadvantages

There may be quantities of energy in excess of those currently identified as part of meter errors, which may not be reconciled correctly due to timing out.

The modification may result in additional queries raised by Shippers attempting to resolve queries in the new restricted billing period.

8 Legal Text

Legal Text

The Workgroup has assessed the following Text:

UNIFORM NETWORK CODE – GENERAL TERMS

SECTION C – INTERPRETATION

*Amend the definition of "**Code Cut Off Date**" as follows:*

Changed marked version

"**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~~3

Clean version

"**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-3

9 Recommendation

All parties are invited to consider whether they wish to submit views regarding this modification. The close-out date for responses is 09 January 2012, which should be sent to enquiries@gasgovernance.co.uk.

A response template which you may wish to use is at www.gasgovernance.co.uk/0398.

Consultation Ends

On 09 January 2012