

Workstream Report
Offtake Metering Error - Payment Timescales
Modification Reference Number 0335
Version 0.2 Draft

This Workstream Report is presented for the UNC Modification Panel's consideration. The Offtake Arrangements Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]

1 The Modification Proposal

Background

Gas is measured as it flows from the NTS to the LDZs by equipment commonly termed Offtake Meters. It is also measured as it flows between LDZs. Inaccuracies in the measuring equipment produce measurement errors which ultimately result in retrospective adjustments to the measured energy. In financial terms the adjustment is derived by multiplying the energy by the prevailing daily System Average Price (SAP) and takes the form of a credit or debit charged to the small supply point market via the RbD mechanism.

Currently when an Offtake Metering Error is discovered the additional debit or credit to RbD is invoiced in a single amount regardless of the cost to Shipper Users and the time across which the error occurred. It is understood by all Shippers that the correction of these errors does not inflate/deflate RbD artificially but the cashflow impact to Users with Small Supply Points is significant in the short term. In turn Shippers must pass on these costs in the form of risk premia within pricing to enable recovery of costs from consumers that may occur unexpectedly. In the case of the Farningham error, discovered in 2007 but relating to under recorded gas over a 9 year period, this resulted in Shippers receiving a single invoice for costs that stretched across several years.

Including adjustments in a single invoice part way through the year is a significant issue for participants operating in the competitive market. Supply businesses factor transportation costs into fixed priced tariffs and contracts, so this risk would be borne entirely by them. In addition we would note that the scale and magnitude of the adjustments means that a risk premium might need to be included in prices.

The majority of errors that occur due to Offtake Metering are debits to RbD so therefore although there is possibility of a credit current events suggest under-recording is more likely. The total under record to the industry (as shown on the Joint Office website) is now over 5,000 GWh.

Proposal

Currently a significant metering error once identified and quantified by the appointed ITE (Independent Technical Expert) is incorporated within a single monthly invoice. It is proposed instead that the outstanding amount would be invoiced in equal

amounts over the same timescales that the error occurred across.

For example in the case of the Braishfield B meter error if the error had not occurred the gas would have been invoiced to Shippers across 3 months, therefore under this proposal the cost of the error would be invoiced over 3 months after identification and quantification. This will allow Shippers to more easily absorb the cost within their cashflow and protects smaller Shippers from large unexpected debits which they cannot budget or allow for.

As this volume will be approximately 1.2TWh based on the initial valuation by Scotia Gas Networks this proposal would allocate that into 3 payments based on the days covered by the error and the relevant reconciliation invoicing timescales. This would result in 3 debits to RbD of approximately 400GWh. This would allow Shippers to manage their cashflow and allow for these costs appropriately.

It is proposed that the interim shortfall be picked up by the appropriate Downstream Transporter who shall cover both Transportation and Energy costs. This may involve a re-imburement of the Shrinkage Manager in the short term. We do not expect the Downstream Transporter to purchase gas but simply be responsible for the cashflow in the short term.

To ensure that cashflows across the industry are aligned as far as possible it is also proposed that the installments paid by the Shipper are aligned to the reduction in the System Operator Commodity charge rebate.

Non-implementation of this proposal will result in continued cashflow impacts to Shippers, introducing a barrier to competition and placing no commercial incentive upon the originators of the error.

Business Rules

1. Following the publication of the Independent Technical Expert's (ITE) final report of the significant metering error the Transporters will:

- a. Re-allocate volume based on the ITE report
- b. Calculate the outstanding amount owed to National Grid NTS using the current significant metering error tool
- c. Invoice the Shippers for each month in the error period in separate invoices at the rate of one invoice a month using the volume and value for each from the Significant metering error template. Eg an error from January to March invoiced for the first amount in October would be invoiced in October for January, November for February and December for March,.

2. National Grid NTS will

- a. Invoice the Downstream Transporter for the outstanding amount due to the Significant Metering Error.
- b. Align the corresponding Commodity charge credit following the

c. reduction in Shrinkage volumes with the Shipper Re-payment Period.

3. The Downstream Transporter will:

a. Pay National Grid NTS as invoiced in 2(a)

b. Recoup the amount by invoicing Shippers as defined in 1(c)

4. The Shipper will:

a. Pay the Downstream Transporter as described in 3 (b).

5. In the case of the Termination of a Shipper where outstanding amounts are still due but payable by that Shipper the Transporter will smear the cost across all Shippers in relation to market share.

2 User Pays

a) **Classification of the Proposal as User Pays or not and justification for classification**

User pays charges will apply to extra operational resource that is needed by xoserve to carry out the invoicing.

b) **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

100% cost to the Transporters as it is inequitable for Shippers to fund a system, which is needed due to failing Transporter assets.

c) **Proposed charge(s) for application of Users Pays charges to Shippers**

No User Pays charges applicable to Shippers.

d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

No charges applicable for inclusion in ACS have been identified.

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

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

As this modification would effectively place a cashflow incentive upon the Transporter community implementation will lead to greater investment pressure upon the Transporters to establish appropriate and accurate metering at LDZ Offtake

points. This would also incentivise transporters to effectively audit and monitor these Offtake Meters, therefore improving the operation of the pipeline.

As the System Operator currently makes adjustments to its charges to align with its allowed revenue this modification will also improve the System and Transportation charging calculations performed by National Grid NTS. This will result in greater confidence in charges to Shippers and therefore more cost reflective prices to customers within a Price control period.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation also improve the operations of the Shrinkage manager as incentives upon the Transporters would give more guarantee as to the accuracy of their shrinkage calculations. It would also contribute to providing a more stable shrinkage incentive.

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;*

Implementation would not be expected to better facilitate this relevant objective.

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;*

Competition is facilitated as the significance of any single error is reduced and any new participants in the market will be able to manage costs more effectively as they will be within an expected timescale and more predictable. It also ensures that shipper charges do not contain unnecessary risk premia making them more accessible to consumers.

Small Shippers will benefit from this as an addition to the management of their cashflow resulting in benefits to competition.

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 (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;*

This should mitigate any risk of a cash call for a Shipper during peak usage periods and allow Shippers to better manage their appropriate credit arrangements.

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.*

Implementation would not be expected to better facilitate this relevant objective.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

There are no implications for operation of the System.

b) development and capital cost and operating cost implications:

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

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

No consequences have been identified.

6 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

No such consequence is anticipated.

7 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

8 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)

Development and capital cost and operating cost implications

Consequence for the level of contractual risk of Users

No consequences have been identified.

- 9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No implications have been identified.

- 10 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**

No consequences have been identified.

- 11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

Disadvantages

- 12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)**

No written representations have been received.

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

No such requirement has been identified.

- 14 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes)

Proposal could be implemented [with immediate effect] following direction from Ofgem.

17 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.

18 Workstream recommendation regarding implementation of this Modification Proposal

The Offtake Arrangements Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]