

Stage 04: Final Modification Report

0395:

Limitation on Retrospective Invoicing and Invoice Correction

At what stage is this document in the process?



This modification seeks to reduce the reconciliation window so that it is set at a minimum of 2 years and a maximum of 2 years and 364 days.



Panel did not recommend implementation of Modification 0395



High Impact: None



Medium Impact: Shippers and the National Grid NTS Shrinkage Provider



Low Impact: Gas Distribution Networks and National Grid NTS

0395

Final Modification Report

28 August 2012

Version 6.0

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About this document:

Having considered the Final Modification Report, Ofgem have directed the UNC Modification Panel to expand upon the analysis and supporting information, please see the Ofgem letter at www.gasgovernance.co.uk/03950398 for further background.

This document is a revised Final Modification Report, to be presented to the Panel on 16 August 2012.

The Authority will consider the additional analysis and supporting information and decide whether or not this change should be made.



3 Any questions?

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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 Modification 0152V were developed as part of 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 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. Consequential changes are also required to the USRV regime to ensure that they do not time out.

Solution

The proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-2 years. At this point, the retrospective billing period will be 2 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-2, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 2 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 2 years 0 days.

It is also proposed that 6 months prior to implementing a 2 year limitation on retrospective invoices all USRVs are passed to the Transporters for resolution when they are 20 months old.

Impacts and Costs

Xoserve indicated that the costs of implementing this modification would be at least £5,000 but no more than £15,000. It is not expected that there will be any additional on-going operational costs as a result of implementation of this modification. It is clear that this is a User Pays modification; however the low value of implementation would provide further support to develop a funding mechanism to implement low value modifications such as these.

Due to the low value costs of implementation it is proposed that this modification is funded 100% by Shippers with the costs recovered based on Supply Meter Point count at the time of invoicing with an expectation that invoicing is conducted in the most efficient manner.

There is not expected to be a significant impact on Shippers or Suppliers who have a Licence Condition to conduct a safety inspection on meters every two years, at which time a meter reading can be collected. However, this may require improvements and

amendments to their internal processes so that they collect their meter readings prior to the cut off. For clarity this is only expected to be an issue around the April roll-over when a tight 2 year cut off will apply.

Implementation

It is the aspiration of the Proposer that this modification is implemented for the 01 April 2013 roll-over. To enable changes to the USRV regime to 20 months it is proposed that Shippers be given 7 months' lead time and Xoserve to have 6 months' lead time. This should provide sufficient notice periods to ensure that impacted USRVs are addressed.

It is therefore proposed that the implementation dates are:

- 01 October 2012 if a decision is received prior to 01 April 2012
- 01 October 2013 if a decision is received after 01 April 2012 and prior to 01 April 2013

If a decision is received after 01 April 2013 implementation should occur 6 months following the decision to implement.

The Case for Change

When Workgroup 0126 was discussing the concept of 'a line in the sand' there was always an aspiration that this would be reviewed and shortened once the industry was au fait with the new arrangements. This modification facilitates said review.

This modification 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 to will be beneficial to competition amongst Shippers.

2 Why Change?

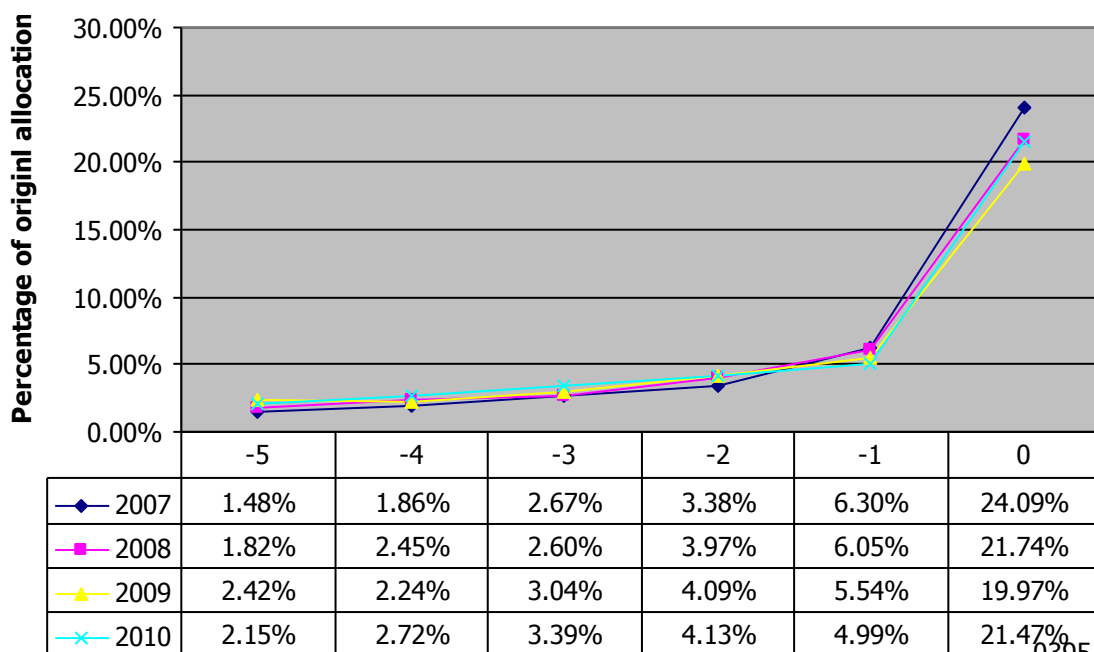
UNC Modification 0152V

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 Modification 0152V were developed as part of 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 would not have a material impact on energy allocation. The data presented showed that after two years the volume of un-reconciled energy reduced significantly (see Table 1, below). The data presented showed that the amount of un-reconciled energy was estimated to reduce from 25-30% in year 0 to roughly 4.5% in year 2. It is also worth noting that although this energy has not 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



Risk Reduction

Although the volume of unallocated energy is relatively small after 2 years, Shippers remain exposed to the risk that they will be exposed to a large unexpected debit or unexpected reduction in the NTS SO commodity charge. 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.

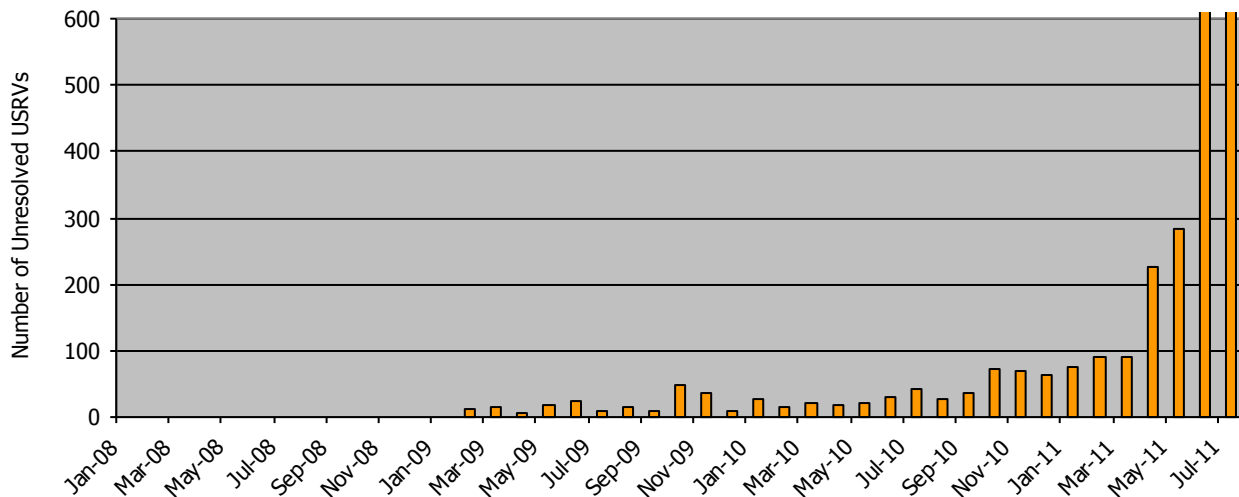
The 3 year model was also proposed as it aligns with Supplier obligations to conduct a safety inspection every 2 years. It is noted that this compares to the UNC requirements which support the submission of a meter reading every year, with must read requirements kicking in at 2 years. It therefore seems reasonable to expect that the majority of sites will have received a meter reading within a 2-3 year window. To the extent that Shippers are exposed to the risk that they have not obtained a meter reading, it is believed that this is within Shipper control as they should be able to update and manage their processes so that a meter reading is received within the required time. It is also noted that the window extends to almost 3 years prior to the backstop date moving forward further extending the window for Shippers to submit meter readings in.

User Suppressed Reconciliation Volumes (USRVs)

Under the current UNC rules User Suppressed Reconciliation Volumes (USRVs) responsibility for resolution is passed to the Transporters when they remain outstanding for more than 30 months. If the reconciliation window were reduced to a 3 year model then this would result in any USRVs that are greater than 30 months old and resolved by the Transporters not being invoiced for the period of April to October each year. This could create an incentive on Shippers to only resolve USRVs that result in credits being addressed prior to the cut over period and USRVs resulting in a debit not being resolved placing a cost on RbD Shippers. It is therefore necessary to resolve this issue as part of this modification to resolve this issue.

Table 2 below shows the number of outstanding USRVs across the industry as of July 2011. This shows that if no changes were made to the USRV regime 264 would be impacted were the 3 year model to be implemented. It is worth noting that currently these are reducing at about 30 per month, so it could be expected that this represents a worst case scenario for the number of USRVs impacted. It is also worth noting that this only shows the number of USRVs and not the impact on energy allocation. These could have been suppressed due to mismatches in meter data, and so their resolution will have no impact on energy allocation

Table 2: Number of USRVs as of July 2011



It has been considered whether consequential changes are required to the USRV incentive mechanism as outlined in UNC TPD E 8.1.1. Currently Shippers are exposed to a financial incentive of roughly £30 per month for each USRV that remains outstanding for more than 4 months up until they are passed to the Transporters for resolution at 30 months. Implementation of this modification would result in these USRVs passing to the Transporters at 20 months, and so in these instances the financial incentive placed on the Shipper would have reduced by £300 per USRV. Although it is recognised that with implementation of this modification the financial incentives that a Shipper is exposed to for USRVs that are not resolved or actioned will reduce it is not intended to address this issue at this time.

It has been noted that the issue of USRV incentives has been discussed within Project Nexus workgroups and there is a view from some Shippers that the entire USRV incentive mechanism including the value of the financial incentives should be reviewed and amended. Given these concerns it is believed that the USRV incentive mechanism should be reviewed by a separate modification. The Proposer and Workgroup are uncomfortable with uniformly scaling up the USRV incentive mechanism from 4 months to £48.75 (for example) as this would result in a USRV that was resolved at 6 months incurring an incentive of £97.50, compared to the current incentive of £60. The impact on reconciliation has remained unchanged and so it is not clear why the incentive mechanism in this instance should increase, further lending itself to the view that this should be addressed by a separate modification.

NTS to LDZ Meter Errors

At the Workgroup meeting on 10 October 2011 National Grid NTS provided a presentation that suggested, based on its analysis that implementation of Modification 0395 may have resulted in under £10 million pounds of energy, associated with NTS to LDZ meter errors not being targeted correctly. National Grid NTS also suggested that this could be detrimental to LDZ Shippers when meter errors resulted in an over recording of energy.

Although the impact of NTS to LDZ metering errors is not a driving factor behind this modification it is recognised that this modification could impact on the allocation of

energy once a NTS to LDZ meter error has been identified. The Proposer disagrees with National Grid NTS' view that this could have a detrimental impact on LDZ Shippers as a result of an over recording meter error. It was noted that based on the Measurement Error Spreadsheet, available from the Joint Office of Gas Transporters, roughly 1,707 GWh of energy has been under recorded by measurement errors, as opposed to 0.33 GWh of over recorded energy. Therefore 99.98% of energy associated with measurement errors is under recorded. It is further believed that the impact identified by National Grid NTS has over estimated the impact of this modification. In particular evidence suggests that the time taken to identify measurement errors is getting shorter as National Grid NTS has been incentivised to identify measurement errors and reduce Unaccounted for Gas (UAG) in its System Operator (SO) role. Finally it is noted that this energy at risk equates to 0.064% of NTS throughput. National Grid NTS advised it has not recovered any incentive revenue from its activities for measurement error discovery.

Some Workgroup Members believed that National Grid NTS as contractual counterparty through the UNC is best placed to manage and reduce these risks. It was noted in particular that successes have occurred in measurement error identification as a result of National Grid NTS' data mining. Further the industry is well placed to reduce the timescales associated with the invoicing of an NTS to LDZ measurement error. In particular they could reduce the time they require to validate the data and encourage the industry to identify efficiency savings in the process.

The Proposer recognises that this modification may have an impact on NTS to LDZ measurement errors and their reconciliation, but believes that the overall benefits from reduced risk exposure for customers outweighs the potential risks from incorrectly allocated energy. The Proposer believes there are clear interactions with the SO incentives being developed for 2012-13 and longer term for 2013-21, where it is noted there is a view that a Licence Condition will be placed on National Grid NTS to reduce UAG associated with NTS to LDZ measurement errors. This modification is expected to be implemented alongside the introduction of the new SO incentive schemes from 01 April 2013 and so it could be expected that the impact of this modification on NTS to LDZ measurement errors will reduce. However, National Grid NTS disagrees with the views of the Proposer as to the magnitude of the impacts SO incentives may have on this modification.

Interactions with EBCC

This modification has highlighted an existing issue with the UNC and the crediting back to Shippers as a result of a Shipper failure, and so could be viewed as a pre-implementation benefit. In particular it has been identified that implementation of Modification 0255 is not compatible with current UNC arrangements as amended by Modification 0152. This is an existing issue that this modification (0395) has helped to identify. It is not proposed to address this issue within this modification. This is an existing issue that will need to be resolved even if 0395 was not implemented and so it is not appropriate to address this issue through this modification.

3 Solution

The proposal is that on 1 April in any year (y), the backstop date for retrospective billing is set to y-2 years. At this point, the retrospective billing period will be 2 years 0 days – the minimum period allowed by this proposal.

That backstop date of 1 April y-2, will remain fixed until 1 April the following year. This means that as year y progresses, the period of permitted retrospection increases, reaching 2 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 2 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 year model (applying the 2 yrs 0 days to 2 yrs 364 days period of retrospection, as set out above) should apply from 1/4/2013.
- The 3 year model will apply equally to Transporter debits and credits.
- 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.

It is also proposed that 6 months prior to implementing a 3 year model that the USRV resolution date is amended so that all USRVs greater than 20 months old are passed to the Transporters to resolve. It is therefore the intention of this proposal that:

- All USRVs that are greater than 20 months old are passed to the Transporters for resolution from 1 October 2012.

4 Relevant Objectives

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 Xoserve 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.

Relevant Objective (d): Securing of effective competition between Shippers

Some Workgroup attendees considered 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, and therefore improves competition.

EDF Energy expanded on this point noting that currently all Shippers have to bill their customers on metered volume, as set out in the Gas Act and implemented through the Supply Licence and Gas Calculation of Thermal Energy Regulations. However, SSP Shippers are allocated energy through the RbD mechanism which estimates energy based on GDN metered data less shrinkage and known consumption for LSP sites. SSP Shippers therefore have to estimate how much energy they will be allocated, estimate how much energy their customers will consume and develop tariffs on the back of these estimations. However, with settlement staying open between 4-5 years SSP Shippers have no certainty of their final allocation for a particular year until 5 years after the date. This could therefore expose a Shipper to a loss that will not transpire until 5 years after the event. It could be argued that this uncertainty creates a barrier to entry for small Shippers entering the market as they will not have certainty as to their costs until 5 years after the event and will have no historical information to analyse and calculate this risk. Implementation of this modification would reduce this uncertainty and so barrier to entry and so may encourage new Shippers to enter the market. EDF Energy believes that SSP Shippers are currently exposed to the risks that LSP Shippers do not reconcile their energy in a timely manner. Implementation of this modification may therefore be deemed to benefit competition by transferring the risk to those who are best placed to manage and reduce this risk.

Some Workgroup attendees considered 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. Gazprom and Total agreed with this view, pointing out that it increases substantially the risk of suppliers to larger I&C customers of being subject to large individual site charges through bill corrections that cannot be mitigated in settlement. Concern was expressed that in these circumstances the exposed Shipper is paying for gas that should correctly have been allocated via RbD to the SSP sector, and this modification effectively transfers risk from the SSP sector to the large LSP NDM and DM sectors.

Some Workgroup attendees believed that this modification would also benefit competition by limiting the period over which retrospective invoicing can occur. Others considered that by not targeting costs accurately by limiting the period of retrospectivity, you might be reducing the benefits of competition.

Some Workgroup attendees recognised that the value of reconciled energy is in the region of £10m per annum. However EDF Energy believe that this figure represents a significant over estimate and the proposed introduction of licence obligations on National Grid to identify meter errors should further limit any impact.

A number of LSP Shippers believed this modification might also lead to cross subsidy, pointing out that unlike domestic and micro-business customers, larger I&C customers routinely investigate and query their energy bills with their supplier. It is therefore reasonably common for billing anomalies to be identified where both the Shipper and Network have erroneously overcharged for consumption. Many of these errors relate to the quality of metering information in the market, which is provided by independent

third party Meter Asset Managers. At present these errors can be corrected up to 4-5 years. As the customer is supported by The Statute of Limitations Act 1980, the supplier is already required to reconcile customer billing back to a six year cut-off date. From the point of view of these Shippers, this modification would therefore leave the supplier having been allocated gas incorrectly and so leaves the Shipper paying for gas its customer never used. As this gas should by rights have been allocated to the SSP sector, it effectively creates a cross subsidy between the two markets.

Removing the ability to correctly reconcile energy will expose Shippers to unreasonable risks that arise from the potential high value of individual site corrections. This will lead to significantly higher risk premiums being built into prices as well as an increase in unrecoverable costs being socialised.

Similar views were expressed by a number of respondents believing that this modification effectively distorts competition, and so works against relevant objective (d) (ii) furthering of competition between relevant suppliers. GDF Suez and Corona Energy pointed out that the additional risks placed on the LSP sector were disproportionate to those Shipper/suppliers who are active only in the LSP sector and any arising costs cannot be diversified. Only Shipper/suppliers who are active in the Domestic market will benefit from this modification. This will provide a disincentive to existing companies competing in the LSP sector and will deter new entrants.

ScottishPower considers that by minimising the risks presented by an extended Settlement window, this modification will provide increased certainty to Shippers in relation to cost allocation. Increased certainty will encourage market entrants and therefore the securing of effective competition between Shippers and Suppliers.

Relevant Objective (f): Promotion of efficiency in the implementation and administration of the Code

Some Workgroup attendees considered 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 of the billing period). Xoserve data presented at the Workgroup meetings highlighted a significant drop in un-reconciled energy well before the cut-off date.

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

National Grid Distribution agrees that there could be some savings associated with implementation of this modification relating to reduced administration costs and a reduction in the need for data retention. However, they feel that these benefits could be outweighed by a risk from a Transporter's perspective of incorrectly targeting costs to relevant Users.

National Grid NTS considers that when weighing up the modification's stated benefit against its potential cost to NTS Users, they do not believe that this modification provides sufficient evidence to suggest that its implementation would provide any net improvement to any of the relevant objectives.

5 Impacts and Costs

Consideration of Wider Industry Impacts

None identified.

Costs

Xoserve indicated that the costs of implementing this modification would be at least £5,000 but no more than £15,000. It is not expected that there will be any additional on-going operational costs as a result of implementation of this modification. It is clear that this is a User Pays modification; however the low value of implementation would provide further support to develop a funding mechanism to implement low value modifications such as these.

Due to the low value costs of implementation it is proposed that this modification is funded 100% by Shippers with the costs recovered based on Supply Meter Point count at the time of invoicing with an expectation that invoicing is conducted in the most efficient manner.

Indicative industry costs – User Pays
Classification of the modification as User Pays or not and justification for classification
This modification meets most definitions of User Pays in that it requires a change to Xoserve's systems and there will be some costs involved, although these are expected to be minimal.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
It is proposed that this is funded 100% by Shippers.
Proposed charge(s) for application of Users Pays charges to Shippers
Pence per supply meter point.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
Based on 22m supply meter points charges would be between 0.0227p/Supply Meter Point and 0.0682p/Supply Meter point depending on final implementation costs.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> None

Operational Processes	<ul style="list-style-type: none"> Impact on system testing when roll over occurs every year
User Pays implications	<ul style="list-style-type: none"> Minimal

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> None
Development, capital and operating costs	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> Some Users consider implementation of this modification will increase their financial exposure through supply contracts.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Potential impact on Must Reads occurring in the March to April period, although it is considered by the Proposer that Shippers could manage this if desired.



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>

Under the current UNC rules if an annual read meter has not submitted a reading to Transporters for 2 years then this is passed to the Transporters who procure a reading on behalf of the Shipper. This is referred to as a Must Read. Implementation of this modification may have an impact on Must Reads that are triggered between March and April every year. For example if a Must Read was triggered on a site on 20 March and a reading was not procured until 10 April, then the period from 20 March Y+2 to 01 April Y+2 would not be reconciled under this modification. It is important to note that it is only the period prior to the cut off date that is not reconciled, and the majority of settlement period will end up being reconciled under this modification. Further it is worth noting that energy had been allocated to the site for this period and so the impact of a reconciliation may be minimal if initial allocation was accurate.

At Workgroup 0395 on 12 September 2011, Xoserve presented statistics on the number of Must Reads that had occurred on a monthly basis for the period from August 2009 to June 2011. See Table 3 below:

Month of Notification Returns	Total CountOf MPR	MTHLY	NONMY	Returned D-20	%	Returned D+20	%
Aug-09	2304	1709	595	2252	98%	52	2%
Sep-09	2972	2088	884	2940	99%	32	1%
Oct-09	1813	937	876	1752	97%	61	3%
Nov-09	1556	1015	541	1493	96%	63	4%
Dec-09	1457	1163	294	1433	98%	24	2%
Jan-10	1299	951	348	1275	98%	24	2%
Feb-10	1955	1280	675	1907	98%	48	2%
Mar-10	2753	2088	665	2699	98%	54	2%
Apr-10	1460	1157	303	1436	98%	24	2%
May-10	1692	911	781	1660	98%	32	2%
Jun-10	1392	1077	315	1360	98%	32	2%
Jul-10	1608	1227	381	1572	98%	36	2%
Aug-10	1867	1339	528	1669	89%	198	11%
Sep-10	1626	1148	478	1585	97%	41	3%
Oct-10	1530	1154	376	1495	98%	35	2%
Nov-10	1703	1094	609	1383	81%	320	19%
Dec-10	1391	1004	387	1167	84%	224	16%
Jan-11	1365	1040	325	1355	99%	10	1%
Feb-11	1303	1137	166	1122	86%	181	14%
Mar-11	1334	709	625	1121	84%	213	16%
Apr-11	1243	884	359	1089	88%	154	12%
May-11	1494	954	540	1434	96%	60	4%
Jun-11	1050	770	280	879	84%	171	16%
Total	38167	26836	11331	36078		2089	
Average	1659.43	1166.78	492.652	1568.61	95%	90.826087	5%

This table shows the total number of MPRNs that went into the Must Read process for each month, and whether they were categorised as monthly read or non-monthly read. This modification will only impact on the non-monthly must read MPRNs (column NONMY) and not the monthly read MPRNs. The table also shows the number of Must Reads that were returned within the 20 day target window, and so again would not be impacted by this modification as well as those that took longer than 20 days to resolve. Unfortunately it is not possible to easily identify which MPRNs that took more than 20 months to resolve were monthly or non-monthly read and so impacted by this modification.

If it were assumed that all Must Reads that took more than 20 days to resolve were monthly read, then from the figures provided by Xoserve it would appear that implementation of this modification would have impacted on 213 MPRNs in 2011 and 54 in 2010. This is roughly equivalent to 0.00097% and 0.00025% of the GB MPRNs respectively. It would therefore appear that this impact is minimal.

It is also worth noting that of the Must Reads that were generated, roughly 95% were cleared by the Transporters within 20 days. It is therefore not immediately clear why these were not resolved by Shippers prior to a Must Read being incurred. It could be suggested that Shippers could reduce the reconciliation for Must Reads being cut short by implementation of this modification by actively managing the Must Read notifications that are sent to Shippers by Xoserve. Indeed a potential benefit of implementation of this modification is that it encourages Shippers to more actively manage their Must Read portfolio.

Total expressed the view that this modification significantly increased the risk of large unrecoverable costs being incurred by LSP NDM and DM Shippers, which may jeopardize the viability of smaller suppliers.

WINGAS observed that in 2011 it had successfully reconciled legacy overcharges of significant value, in partnership with Xoserve and its colleagues. It anticipated that

further reconciliation was necessary and expressed its concern that implementation of this modification will jeopardise adjustments owing and result in a rush of adjustments.

Corona Energy was concerned that the risk exposure that it will face from bill corrections for I&C customers will exponentially increase. This will require a significantly higher risk premia being built into prices as well as an increase in unrecoverable costs being loaded onto other customers.

Corona Energy also observed that it has provided evidence to demonstrate that the level of costs associated with this proposed change would significantly impact on the costs incurred by smaller independent Shippers active in the LSP sector which they will be unable to hedge through obtaining a domestic portfolio of similar size. The evidence shows that the level of cost this modification would place on such suppliers would be unsustainable and would therefore result in the reduction of competition.

National Grid NTS estimate that implementation of this modification represents a potential to increase the misallocation of costs from LDZ to NTS Users by circa £9.3m per annum (as detailed in the previous graph). However, they would expect this to reduce over time provided the incentives for meter assurance improvements are maintained.

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

Impact on Code	
C	<ul style="list-style-type: none"> Update of definition of Cut Off Date

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

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	<ul style="list-style-type: none"> None
Gas Transporter Licence	<ul style="list-style-type: none"> None

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> None
Operation of the Total System	<ul style="list-style-type: none"> None
Industry fragmentation	<ul style="list-style-type: none"> None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	<ul style="list-style-type: none"> None

6 Implementation

It is proposed that this modification is implemented for the 01 April 2013 roll-over. Sufficient time is also required to be provided to Shippers and Xoserve to resolve USRVs prior to reducing the retrospective reconciliation process. It is therefore proposed that the implementation dates are:

- 01 October 2012 if a decision is received prior to 01 April 2012
- 01 October 2013 if a decision is received after 01 April 2012 and prior to 01 April 2013
- If a decision is received after 01 April 2013 implementation should occur 6 months following the decision to implement.

Gazprom and Total anticipated that implementation of this modification would lead to a substantially increased workload for Xoserve as a large number of reconciliations that would have otherwise been submitted gradually over a period of time will instead be submitted ahead of any reduction in the reconciliation timescale.

The proposed implementation date for 0395 (01 October 2012) will therefore be difficult for the industry to meet. Gazprom also pointed out that a phased implementation of 0398, followed by 0395, as has been suggested, is impractical. If either of these modifications were to be implemented Shippers, particularly those who supply larger I&C sites, will need to undertake a review of their business activities in this sector in order to evaluate the risks to their businesses. They will also have to undertake substantial system changes to align their processes with the new cutoff deadline. Having to do this twice in quick succession will place significant additional costs onto the industry, and ultimately the customer.

It was Total's view that any implementation timescale should give a minimum of 12 months' notice to allow an orderly transition.

Corona Energy pointed out that implementation should be considered within the wider context of other changes that Ofgem and DECC are currently expecting small suppliers to deliver, such as Smart Metering, Green Deal, RMR changes, Backbilling Codes of Practice, the Security of Supply SCR, REMIT, Project Nexus changes, removal of the DNO DM Read, etc. Corona Energy believes an implementation date for 0395 (01 October 2012) will be difficult for suppliers to meet without jeopardising the delivery of other policy deadlines and changes.

SSE would like this modification to be implemented in time for the April 2013 rollover date. Prior to this they would like Modification 0398 to be implemented from April 2012, so that there is a gradual reduction in the limitation of retrospective invoices from the current period of 4 years to 4 years and 365 days down to a period of 2 years to 2 years and 365 days.

7 The Case for Change

In addition to those above, the following have been identified:

Advantages

- May encourage Shippers to improve their meter read performance thereby avoiding Must Reads, which may have a positive impact on the AQ process.
- There may be benefits to timely resolution of USRV queries undertaken by Shippers to avoid the Transporters resolving them.

Disadvantages

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

8 Legal Text

The following draft Text has been assessed by the Workgroup:

DRAFT LEGAL TEXT – v. 0.1 (04 OCTOBER 2011)

Proposed Amendments to the Uniform Network Code

This text has been drafted by Wales & West Utilities to suit an implementation date of 1 October in any year. Any other implementation date may require changes to the Transition Document.

General Terms - Section C – Interpretation (*changed marked*)

Amend Section C as follows:

"**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 – 4₂

Transportation Principal Document – Section E (*changed marked*)

Amend paragraph 8.4.1 and 8.4.6 as follows:

8.4.1 Where a User Suppressed Reconciliation Value remains Suppressed:

- (a) for a period of ~~30~~20 months following the USRV Month; or
- (b) in the Back Stop Reconciliation Month where it is more than ~~30~~20 months following the USRV month;

without prejudice to the User's entitlement to investigate the User Suppressed Reconciliation Value pursuant to paragraph 8.1.1(b) and (c), the Transporter will commence an investigation of such User Suppressed Reconciliation Value in such ~~30th~~ 20th month (or in the Back Stop Reconciliation Month) and use its reasonable endeavours to resolve the User Suppressed Reconciliation Value such that it will cease to be Suppressed and such activity will be performed as a User Pays Service.

8.4.6 Where a User Suppressed Reconciliation Value which is the subject of an investigation by a User pursuant to paragraph 8.1.1, relates to the same relevant Reconciliation Billing Period as applies to the User Suppressed Reconciliation Value which is the subject of an investigation by the Transporter pursuant to paragraph 8.4.1, paragraph 8.4.4 and 8.4.3 shall apply in respect of the User Suppressed Reconciliation Value which is the subject of the paragraph 8.1.1 investigation, notwithstanding that a period of ~~30~~20 months has not elapsed from the USRV Month for such User Suppressed Reconciliation Value.

General Terms - Section C – Interpretation (clean)

Amend Section C as follows:

"**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 – 2

Transportation Principal Document – Section E (clean)

Amend paragraph 8.4.1 and 8.4.6 as follows:

8.4.1 Where a User Suppressed Reconciliation Value remains Suppressed:

- (a) for a period of 20 months following the USRV Month; or
- (b) in the Back Stop Reconciliation Month where it is more than 20 months following the USRV month;

without prejudice to the User's entitlement to investigate the User Suppressed Reconciliation Value pursuant to paragraph 8.1.1(b) and (c), the Transporter will commence an investigation of such User Suppressed Reconciliation Value in such 20th month (or in the Back Stop Reconciliation Month) and use its reasonable endeavours to resolve the User Suppressed Reconciliation Value such that it will cease to be Suppressed and such activity will be performed as a User Pays Service.

8.4.6 Where a User Suppressed Reconciliation Value which is the subject of an investigation by a User pursuant to paragraph 8.1.1, relates to the same relevant Reconciliation Billing Period as applies to the User Suppressed Reconciliation Value which is the subject of an investigation by the Transporter pursuant to paragraph 8.4.1, paragraph 8.4.4 and 8.4.3 shall apply in respect of the User Suppressed Reconciliation Value which is the subject of the paragraph 8.1.1 investigation, notwithstanding that a period of 20 months has not elapsed from the USRV Month for such User Suppressed Reconciliation Value.

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Support
Consumer Focus	Support
Corona Energy	Not in support
E.ON UK	Not in support
EDF Energy	Support
Gazprom Marketing & Trading Retail	Not in support
GDF SUEZ Solutions Ltd	Not in support
National Grid NTS	Comments
National Grid Distribution	Not in support
RWE npower	Not in support
Scotia Gas Networks	Not in support
Scottish Power	Qualified Support
SSE	Support
Total Gas & Power Ltd	Not in support
WINGAS UK Ltd	Not in support

Of the fifteen representations received four supported implementation, one offered qualified support, one provided comments and nine were not in support.

Summary Comments

British Gas believes that this modification will play an important role in reducing the risk that Shippers face in the current gas settlement process. The rules within the UNC provide a mechanism for Shippers to be retrospectively invoiced for corrections in the settlement record up to five years. This ongoing exposure creates risk for Shippers which in turn creates cost. In conclusion they believe that a move to a three year limit would benefit both the industry and customers.

Consumer Focus report that in 2010 Consumer Direct received 1,848 complaints from micro-businesses who got unexpected bills after their energy charges were initially underestimated. Approximately 40% of the energy related complaints that Consumer Direct gets from micro-businesses relate to back-billing. They believe this modification is a sensible improvement to the existing arrangements. It would increase incentives on shippers to get accurate meter data into settlement quickly, which should increase incentives on suppliers to also resolve consumer-facing issues with outstanding meter read issues more quickly. It would also reduce the risk of retrospective corrections to settlement data, which should reduce the risk of participating in the market.

Consumer Focus note the arguments raised by some industry parties that this modification would be incompatible with the Statute of Limitations and provide a response to this.

EDF Energy believe implementation of this modification would more closely align the settlement window with the back billing arrangements that domestic suppliers currently adhere to as well as the electricity settlement arrangements. They noted that implementation of modification 0152 demonstrated the benefits from reducing the settlements window by encouraging Shippers to ensure that they have taken action to ensure energy reconciliation for LSPs in a timely manner and implementation of this modification would provide a further incentive to act in a timely manner to ensure accurate energy allocation.

EDF Energy note the issues raised for LSP Shippers but believe that this is manageable and can be reduced by these Shippers. In particular they note that the LSP Shippers are in the majority of cases the contractual counter parties to MAMs and MAPs through their metering contracts. It would appear reasonable to expect that these LSP Shippers should be able to enforce these contracts to ensure that accurate and timely data is provided. This would reduce the risk or potentially even remove the risk of consumers seeking to correct energy bills as a result of inaccurate data. Further as the counter parties responsible for resolving USRVs it would not appear unreasonable to expect LSP Shippers to manage these, further reducing their risk. This is in contrast to SSP Shippers who are currently exposed to the risks that LSP Shippers do not reconcile their energy in a timely manner, but are unable to control or manage this risk.

E.ON UK in general support shorter timescales to reduce financial risk and promote timely resolution of queries, but share the concern of others that moving to a 2 to 3 year model may result in significant amounts of energy associated with Significant Offtake Meter Errors being socialised rather than targeted.

A number of Shippers (Gazprom, GDF SUEZ, Total, WINGAS and Corona Energy) expressed the view that the Draft Modification Report does not adequately reflect the strength and significance of the risk that they believe this modification presents to competition in the larger end of the I&C sector. In their view it presents a significant risk to the LSP NDM and DM shippers, who will be unable to reflect customer billing corrections in settlement for a substantially longer period than at present. In the case of large invoice corrections, this discrepancy has the potential to jeopardise the existence of a smaller Supplier in the market, who does not have a large SSP portfolio to spread out the costs.

WINGAS also expressed strong concerns regarding the potential consequences for an organisation operating predominantly in the LSP sector. Its customers (high energy consumers) generally have their own sophisticated energy management capabilities, and it is common for billing anomalies to originate from the consumer where both the Shipper and Network have overcharged for consumption. As the customer is supported by The Statute of Limitations Act 1980, the supplier is required to reconcile billing back to a six year cut off. The supplier would not be able to reconcile this energy with the Network and, due to the high volumes/low margins involved, this could have a terminal effect on the viability of a small company such as WINGAS UK. WINGAS noted that this is not a risk that organisations with a large SSP portfolio face, where the individual cost exposure is much smaller.

Gazprom does not support Modification 0395 since further reducing the current reconciliation period greatly increases the length of time where any customer billing correction going back to the statute of limitation limit could not be reflected in settlement. Shippers are unable to back off this risk through their contracts by law i.e.

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set aside the statute of limitations and so it increases substantially the risk of suppliers to larger I&C customers of being subject to large individual site charges through bill corrections that cannot be mitigated in settlement.

EDF Energy noted the concerns raised by some parties with regards to the interaction with the statute of limitations. They recognised that there appeared to be two views; one that the statute of limitations sets the limit for back bills, the other that this only applies when there are no terms covering this in the contract. They believe if the latter applied then it would not be insurmountable for this risk to be covered off by an associated change to I&C Supply contracts, which would further be supported by the implementation lead time. It is also not clear how material a risk this is for I&C Shippers. In particular they note that the work carried out to support the Unaccounted for Gas Statement (UAGS) found that meter errors in the supply market were normally distributed and so one would expect to see errors for both over and under recording equally prevalent. This would suggest that in the event of a mis-match with the statute of limitations and settlement I&C Shippers would be neutral to any reduction in the settlement period as losses would be offset by gains. However the evidence provided by Xoserve found that the vast majority of energy re-allocations resulted in debits to the SSP market – i.e. they were credits to I&C customers. They note that Consumer Focus has highlighted issues in their response regarding the number of back billing complaints. They believe there is inconsistent evidence on this issue and believe it would be interesting to identify what has happened to this energy and why there appears to be a tendency to only ensure accurate energy allocation to the SSP market when this involves a debit to this sector and a credit to I&C customers.

GDF SUEZ pointed out that a shortened reconciliation process might be suitable for the SSP sector, which is tariff priced and in which risks are diversified, but it is not a suitable solution for the LSP sector where contracts are individually priced and settled.

GDF SUEZ went on to suggest that this modification should be subject to a Regulatory Impact Assessment to properly ascertain the full market impacts.

National Grid Distribution considers that implementation of this modification would not be consistent with requirements of the relevant objectives, as set out in their licence. Should a shortened close out period be implemented, there is a risk that certain costs arising through the reconciliation process would be prevented from being correctly allocated. Information provided in the Draft Modification Report relating to the amount of allocated energy which remains unreconciled over time shows a significant increase when comparing a 2 -3 year close out with a 3 - 4 year close out in relation to the amount of unreconciled energy. They are also aware that, although there is a UNC process for ensuring that all meters are read a least once every two years, there is a possibility that certain reconciliation meter reads could fall outside the close-out period and, while this is not a major concern, They do not believe it is appropriate for any primary reconciliations to be curtailed.

RWE npower notes that there is an obligation to provide corrective customer billing (in line with The Statute of Limitations Act 1980) and this modification will reduce the timescales available to produce retrospective bills.

Both RWE npower and Scotia Gas Networks would prefer if the industry were given an opportunity to assess the impact of a tighter reconciliation period with the implementation of Modification 0398 before potentially moving to an even shorter reconciliation period as set out in Modification 0395.

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Scotia Gas Networks does not support implementation of this modification at the present time as they feel that moving from a reconciliation period of up to 5 years down to a proposed maximum period of 2 years and 364 days is too large a step change for the industry to make in one move. It is their view that the reconciliation period proposed in Modification 0398, if accepted by OFGEM, would better facilitate the reconciliation process at this point in time.

ScottishPower are of the opinion that a reduction to the period in which settlement retrospective invoicing and correction can be applied is a benefit to the industry and as such will assist in reducing the risk of uncertainty to Shipper costs. Under the ERA Billing Code, Suppliers are not permitted to back bill their domestic customers greater than 12 months where an error has been identified and has not been previously communicated to the customer within that period. Current settlement arrangements permit invoices and reconciliations to be processed up to 5 years following the initial energy allocation. This length of time, in their view, presents Shippers with undue risk and an extended period of uncertainty.

National Grid NTS understand that, as a principle objective, this modification seeks to reduce the risk of shipper exposure to large and unexpected bills. They note that the modification suggests that this risk is predominantly a risk associated to shipper activity within a LDZ. However in the context of LDZ Offtake Meter Errors, National Grid NTS consider that this assertion must be balanced against the adverse impacts of socialising any potential costs, associated with reconciled but unrecovered amounts, across the NTS shipping community. They note that any reduction in the limitation on retrospective invoicing will further inhibit the NTS Shrinkage Provider in its requirement to effectively re-apportion costs to appropriate parties. The majority of the financial risk resulting from not apportioning cost appropriately (in the context of LDZ Offtake Meter Errors) sits with NTS Users funding NTS Shrinkage. For this reason National Grid NTS consider that, to a greater extent, the decision as to whether to reduce the limit on retrospective invoicing, and invoice correction, to a 2 to 3 years back stop is a decision which lies with the shipping community.

As part of their response National Grid NTS provide additional information they believe needs to be considered. This includes Shrinkage Provider analysis, the impact on other modifications and response to the UAG SO incentive.

Shrinkage Provider Analysis: In its role as System Operator (SO) National Grid NTS believe that there may be a material impact of reconciliation associated with LDZ Offtake Meter Errors and therefore impacts on NTS Users should also be considered when making a determination on this modification.

LDZ Meter Error Reconciliation Guidelines: National Grid NTS is concerned with the potential impact that introducing a reduction in the limitation on retrospective invoicing and invoice correction may have on the intent of the LDZ Offtake Meter Error reconciliation process, particularly in the context of a Significant Meter Error (SME).

The invoicing of SMEs is beholden on completion of the LDZ Offtake Meter Error Reconciliation process. They believe that the introduction of reduced limits to retrospective invoicing may compromise the reconciliation window in which SME processes can be completed, and as a consequence the ability to reconcile may be timed out if agreement on the SME assessment is delayed.

SO Incentive performance: In response to the proposer's statements regarding National Grid NTS performance in respect of the UAG SO incentive associated with NTS

offtake meter errors, data mining and reduction of UAG, National Grid NTS notes that, to date, it has received zero UAG incentive revenue. Since 2009 National Grid NTS has undertaken a range of activities to address UAG and, whilst delivering User benefits, has incurred additional cost for carrying out these activities.

National Grid NTS is cash neutral in respect of LDZ Offtake Meter Reconciliation. Furthermore it does not own NTS/LDZ meters as NTS Connected Meter Assets are predominantly owned by DN's, Terminal Operators and Large Industrial End Consumers.

ScottishPower feel that the impact of any change on iGT CSEP reconciliations needs to be considered. As confirmed within the AUG Report, 693GWh of energy has been estimated as remaining un-reconciled within this AUG Year. Due to delays in the exchange of information between parties involved within the initial CSEP Connections process, and delays in the subsequent registration of MPRNs against Shipper Portfolios with the creation of Logical Meter Numbers, it is extremely difficult to place a value on the level of reconciliation and invoice adjustment that remains outstanding.

EDF Energy note that when a NTS to LDZ meter error occurs the costs of this is funded by NTS Shippers through the SO commodity charge. When this is rectified by reconciliation to SSP Shippers the costs of this energy results in a reduction in the SO Commodity at the next price re-setting period. It would therefore appear that although NTS Shippers funded the initial cost of this error in one year, the refund does not flow until the following year. The end results being that these refunds are not correctly targeted to NTS Shippers. Notwithstanding their view that the figures quoted by National Grid are in the extreme it is not clear how this issue of money flows fits with National Grid's view regarding the correct allocation of costs. Ultimately National Grid is the contractual counter party for NTS to LDZ meters, and so would appear best placed to manage this risk. This could be through ensuring that code requirements for annual verification are met as well as data mining or other initiatives. If subsequent changes are required to the Meter Error Guidelines to support this modification, then this could be facilitated and should not be seen as an issue preventing implementation.

10 Panel Discussions

The Panel Chair summarised that the UNC provides that retrospective invoices are limited to a period between 4 years to 4 years and 365 days. This Modification proposes reducing this period by two years, such that retrospective invoices are limited to a period between 2 years to 2 years and 365 days.

Some Members considered that, by reducing the scope for retrospective adjustments, implementation could be expected to reduce the risk faced by some Shippers. The prospective of retrospective adjustments creates uncertainty and leads to risk premiums being included in prices. Reducing risk and uncertainty can be expected to facilitate the securing of effective competition.

Members also recognised that any adjustment to Shippers at the DN end of the process would be offset by a change to NTS Shrinkage, with the risk potentially being moved rather than reduced.

Some Members were concerned that risk would be increased since implementation would increase the discrepancy between the UNC and the Statute of Limitations - customers may have to be recompensed for any error in a period despite there being no reconciliation of costs allocated under the UNC. Increasing risk would be detrimental to the securing of effective competition.

Similarly Members were concerned that risk would be increased because activities being legitimately undertaken in accordance with the UNC would be impacted including, in particular, the Must Read process and the way in which reads would no longer be used.

Members then voted and, with two votes in favour and eight against, did not determine to recommend that Modification 0395 be implemented.

Second Panel Discussion – 16 August 2012

The Panel reconsidered the Final Modification Reports for Modifications 0395 and 0398 in light of the information provided after Ofgem sent back the initial Final Modification Reports.

Modification 0395 - Limitation on Retrospective Invoicing and Invoice Correction

R Cameron Higgs (Wales & West Utilities) advised that he had reflected on the views put forward and was now of the opinion that the modification would not create a divergence between I&C and domestic markets. He considered implementation would facilitate competition as it would not significantly increase risk for I&C Shippers but, by shortening the reconciliation window, would create an increased degree of certainty in the market. J Ferguson (Northern Gas Networks) agreed with this view, suggesting implementation is likely to create a more stable environment.

C Hill (First Utility) disagreed with these views as any increase in certainty would be provided by an artificial cut off which disproportionately impacts the I&C market due to the potential risk posed under the statute of limitations, bearing in mind that the usual arrangement is a pass-through contract for transportation charges.

J Dixon (Ofgem) was concerned that a clear argument against implementation had not been made and explained. Ofgem would have appreciated more detail on any different impacts between domestic and non-domestic markets, and indeed whether there may be a case for establishing two different invoicing

arrangements. A clear exposition had not been provided as to why the impacts would be different in each market and, in particular, why the statute of limitations creates a risk when Modifications 0395 and 0398 relate to invoicing between Shippers and Transporters and also the statute of limitations is not generally an issue in circumstances where a contract exists.

P Broom (GDF Suez) explained that he is against both Modifications 0395 and 0398 in principle as there is a possibility that a business could go bankrupt should they receive a large claim from a consumer after the cut off date, which could be due to an error that is outside the Shipper's control.

Members then voted and with four votes in favour of implementation and six against, did not determine to recommend that Modification 0395 be implemented.

Modification 0398 - Limitation on Retrospective Invoicing and Invoice Correction (3 to 4 year solution)

C Warner (National Grid Distribution) indicated that he felt that, unlike Modification 0395, implementation of Modification 0398 would further the relevant objectives. The reasons for this were as stated in National Grid Distribution's representation.

Members then voted and with seven votes in favour of implementation and three against, determined to recommend that Modification 0398 be implemented.

Implementation dates for Modification 0395 and 0398

The Panel Chair invited views on the appropriate implementation date if either modification were implemented.

J Ferguson stated that there is less development work to implement Modification 0398 as implementation of Modification 0395 would have an impact on the USRV process and would consequently require more effort.

S Leedham (EDF Energy) explained that 01 April was specified in Modification 0395 in order to reduce Xoserve costs - the line is the sand is adjusted each April in any event. The view from Panel Members was that an April implementation date is desirable.

Members then voted whether, assuming one of the modifications were to be implemented, Modification 0395 would better facilitate the relevant objectives than Modification 0398. With one vote in favour, six against and three abstentions (on the grounds that each had the same impact on the relevant objectives), Members considered that implementation of Modification 0398 would be likely to further the relevant objectives to a greater extent than implementation of Modification 0395

J Dixon was concerned that analysis has not been provided which indicates which modification is the optimum solution, with no clear explanation as to why the difference in period is significant in the context of the relevant objectives.

11 Recommendations

Panel Recommendation

Having considered this Modification Report, the Panel recommends:

- that proposed Modification 0395 should not be made.

12 Additional Workgroup Considerations

Additional Considerations for the FMR:

Some Workgroup participants advised that they would be providing additional information directly to Ofgem in response to the following these questions. Other Workgroup participants were concerned that insufficient time has been allowed to provide sufficient detailed analysis to answer the question raised by Ofgem.

1. quantify the benefits of the modifications in terms of the reduction in shippers' risk and credit exposure;

One Workgroup participant expressed view that currently tariffs include a risk premium due to the uncertainty around RbD reconciliation, therefore reducing the reconciliation window will reduce the duration of the risk and should therefore lead to a reduction in tariffs.

2. determine the causes of energy remaining un-reconciled after 3-5 years;

There are a number of reasons and factors why energy may not be reconciled with the main cause being an inability to provide a meter reading due access problems or incorrect data held on systems.

- Vacant premises
- Delayed due to warrant process to gain access which is more complex in the business LSP arena
- Asset mismatch between Shipper and Xoserve
- No meter on site and Xoserve not informed
- Dirty address data, resulting in shipper being unable to find the meter and/ or the site itself
- Xoserve systems record meter point as dead, however a meter is actually on site
- Prime and Sub scenarios with difficulties in submitting all reads at the same time, sometimes primes and subs are in different shippers ownerships
- Meter blocked access

3. set out the typical lead times to resolve settlement disputes or adjustments, together with the estimated scale and age profile of such adjustments;

Some Workgroup participants were of the opinion that Shippers individual positions were not relevant and that the Transporters Agent is best placed to provide this information for the industry.

4. consider the financial implications of a shortened reconciliation window in terms of re-distribution between Small Supply Point (SSP) and Large Supply Point (LSP) sectors (or vice versa);

Some Workgroup participants consider reducing the window will provide a net gain to the SSP market subject to appropriate incentives remaining in place for Users to reconcile accounts. However, some Workgroup participants were concerned that insufficient time has been allowed to provide sufficient evidence for a judgment to be made one way or the other.

5. further consider the impact of these modifications upon UNC Parties non-code liabilities, their ability to mitigate any associated risk and the applicability of remedies outside of the normal settlement process;

Some Workgroup participants consider there is a risk that where customer account resolution takes longer than 2 years in the LSP sector that industry charging may not be passed through accurately via customer charging if accounts are not reconciled in a timely manner.

The Workgroup considered the following points:

6. Provide evidence on whether further reconciliation subsequent to the proposed cut off would ordinarily be expected to simply confirm the original allocations, or involve a significant redistribution of costs;

Some Workgroup participants were of the opinion that Shippers individual positions were not relevant and that the Transporters Agent is best placed to provide this information for the industry. However, the Transporters Agent gave a view that they can only provide a snapshot of current behaviors based on the rules in place.

Xoserve analysis has been published here
www.gasgovernance.co.uk/03950398/260412

7. Provide evidence of the extent to which suppliers' tariffs currently anticipate the risk of reconciliation and the likely effect that its removal may have on tariff structures;

Some Workgroup participants advised that they were unwilling to provide this information to the Workgroup as it is commercially sensitive. However, a number of Workgroup participants advised that they would be willing to share such information directly with Ofgem.

One Workgroup participant felt that there would be no overall impact on tariff structures.

8. Assess the extent to which meter reading performance is influenced by the prevailing settlement window;

Some Workgroup participants felt that meter reading performance should not be a significant issues as Users currently have meter reading obligations in UNC with the must read process providing an incentive to submit meter readings for LSPs.

Workgroup participants noted that NDM meter reading strategy's and performance was not driven by the settlement window.

9. Assess the impact on the relevant objectives of the differences between the two modifications, namely the relative length of the proposed settlement windows and their respective implementation dates;

There were mixed views on which modification furthers the relevant objectives with support for both Modification 0395 and 0398. One Workgroup participants preferred Modification 0395 subject to an assurance that there would be no additional costs passed through to the LSP market.

10. Assess the optimum implementation date for each modification;

Some Workgroup participants would like to see an implementation notice of 6 months to allow systems and processes to be modified. However, some Workgroup participants were concerned that insufficient time had been allowed to fully understand the implementation implications of each modification.

11. Identify alternative remedies under the UNC, in equity and in law, including consideration of how the Limitation Act 1980 would be applied and its effect on any right of recovery.

Some Workgroup participants held a similar view to Ofgem in that they were not of the opinion that the Limitation Act would impact these modifications. However, some Workgroup participants were concerned that in this case the billing error would sit with the organisation that has undertaken the energy allocation or transportation activity. At present, there is no clear mechanism for this to occur and a Shipper will have to rely on a legal process to correct any significant cost error, which is a significant cost in particular for smaller suppliers.

The Workgroup invites the Panel to:

- AGREE that Modification 0395 be submitted for further consultation.

Additional Workgroup meeting held on 08 August 2012

The Workgroup reviewed the report provided by WatersWye on behalf of ICoSS. No further comments were provided. However, a number of participants were considering

writing to WatersWye and Ofgem to seek clarification on a number of questions, as the information could not be provided in the meeting as it is considered to be commercially sensitive.

13 Further Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Support
EDF Energy	Support
ICOSS	Comments
RWE npower	Not in support
Scottish Power	Support

Of the five representations received three supported implementation, one was not in support and one provided further analysis and comments.

Summary Comments

British Gas' position remains the same and they currently have no further information to offer.

ICOSS provided some additional data and are currently undertaking detailed analysis of the impacts. They provided details of areas to be further examined within their response.

EDF Energy believes that the majority of causes of un-reconciled energy in the LSP market are within the control of the registered LSP Shipper. As such, EDF believe that implementation of Modification 0395 or 0398 would not result in an increase in unreconciled energy. Instead they believe that LSP Shippers will seek to ensure their energy is reconciled in a timelier manner. This is also supported by experience from implementation of 0152V.

EDF Energy also do not believe that implementation of either modification would result in a re-distribution of money from LSP to SSP Shippers. Instead the benefit of this modification is more timely reconciliation which in turn will reduce the risk premium faced by SSP Shippers.

EDF believe any non-code impacts can be mitigated through supply contracts. They believe that the Limitation Act 1980 only applies when there are no contract terms to cover this. As such they believe that this could be covered by amending standard contract terms so that this was aligned with the UNC if this was required. They believe from the large volume of I&C Supply contracts in electricity the mis-match between the settlement window and the Limitation Act 1980 does not cause any issues, as this is mitigated through contract terms and arrangements.

EDF Energy also address the concerns raised relating to the risk and exposure that implementation would place on I&C Shippers. EDF Energy believes the exposure is caused by the lack of meter reads. They believe the delay in implementing Modification 0395 so it coincides with the completion of the roll out of AMR ensures that all of the issues and concerns raised should have been addressed.

RWE npower recognises the benefits associated with shortening the reconciliation window. Consumer benefit may be derived by a supplier crystallizing its costs earlier, if a reduction in any risk premia is possible. However, they remain unconvinced about

the magnitude of the benefit when other effects such as errors in the allocation of gas are taken into account. They believe Modification 0395 would reduce the settlement reconciliation window enough to require a significant change to meter read frequency to enable earlier identification of errors. This is a cost that would be borne by the customer. Whilst at first sight the objective of the proposed Modification is desirable, it is preferable that these enduring benefits are delivered as part of the smart metering programme across the industry in the future. They believe it would be advisable to review the situation once Suppliers have started deploying smart meters.

Scottish Power are of the opinion that a reduction to the period in which retrospective invoicing and correction can be applied is a positive step and will assist in reducing the risk of uncertainty to Shipper costs particularly within the SSP market sector, stating a preference for Modification 0395. They do have concerns in relation to the volume of Supply Meter Points that remain un-reconciled on CSEPs. They believe that full engagement of all responsible parties is required in an effort to resolve data inconsistencies between portfolios held by Shippers/iGTs/Large Transporters prior to the introduction of Modification 0395 or 0398. This exercise would also support the introduction of an IGT Single Service Provision. Sufficient time should be allowed for both the data cleansing exercise and to allow any necessary reconciliation adjustments to occur.