

Rough Order of Magnitude (ROM) Analysis

for

Modification Proposal 335 Offtake Metering Error – Payment Timescales

Version 1.0

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Disclaimer:

This ROM Analysis has been prepared in good faith but by its very nature is only able to contain indicative information and estimates (including without limitation those of time, resource and cost) based on the circumstances known at the time of its preparation. No representations of accuracy or completeness are included and any representations as may be implied are expressly excluded (except always for fraudulent misrepresentation).

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This ROM does not, and is not intended to; create any contractual or other legal obligation

Change driver / origin

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 cash 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 premium within pricing to enable recovery of costs from consumers that may occur unexpectedly.

This ROM has been developed on the business rules within Modification 0335 version 6.0. It is noted that the modification is now at version 9. Changes between version 6 and 9 have not been reflected in this ROM and therefore additional caution should be exercised when using the information in this ROM.

Analysis

The proposal is for the DN (where the Offtake Meter error occurred) to compensate the NTS Shrinkage Manager in full, in the month that the Meter Offtake Error charges were calculated and created, and for the Shippers to recompense the DN over the same period that the Meter Offtake Error occurred.

Business Rules extracted from MOD 0335 v6

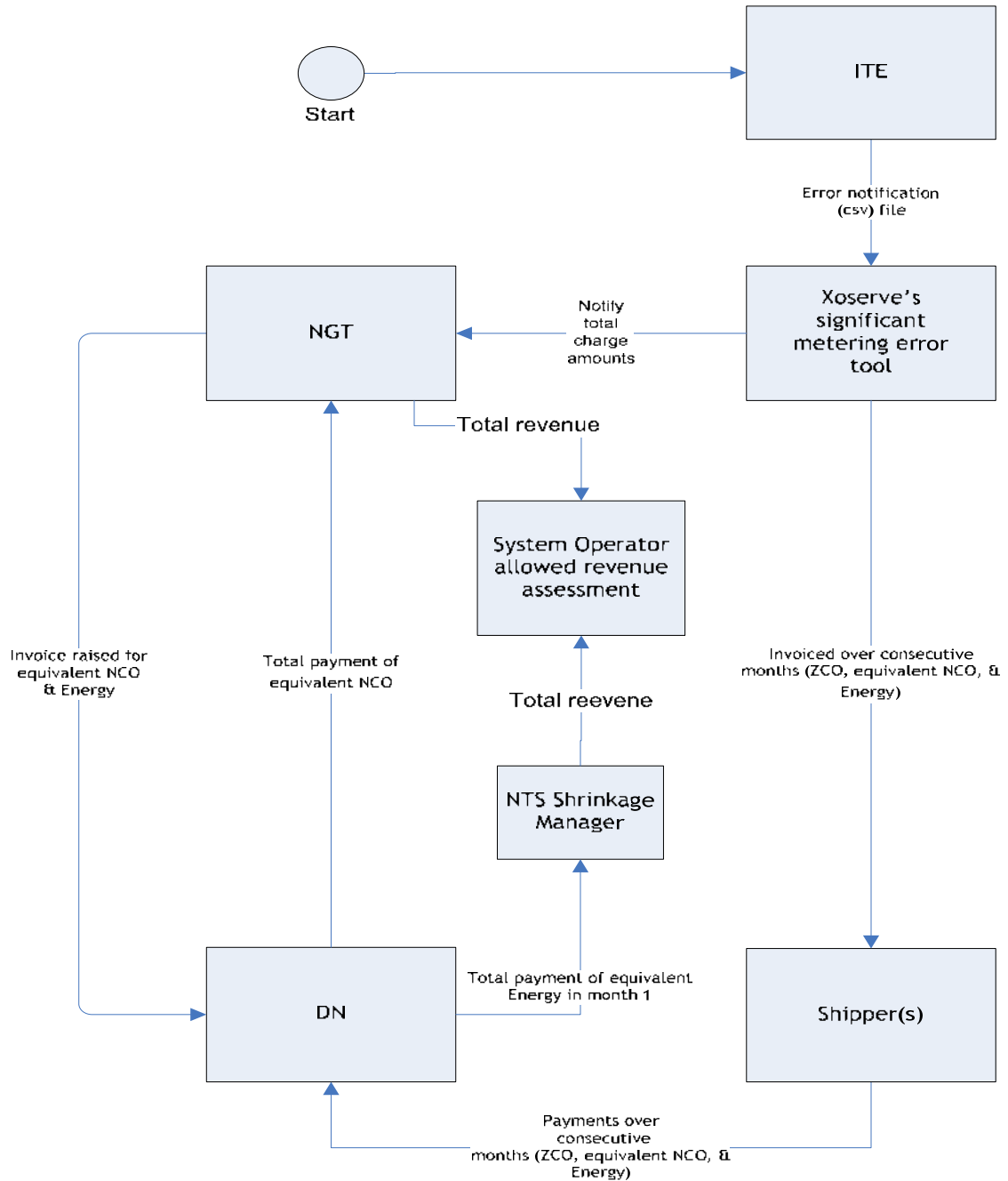
1. Following the publication of the Independent Technical Expert's (ITE) final report of the significant metering error, the Downstream Transporter shall:
 - a. Re-allocate volume based on the ITE report.
 - b. Calculate the outstanding amount owed to the NTS Shrinkage Manager using the current significant 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, e.g. an error from January to March invoices for the first amount in October would be invoiced in October (January error), November (February error) and December (March error).
2. National Grid NTS shall:
 - . Invoice the Downstream Transporter for the outstanding amount due to the Significant Metering Error.
 - . NTS Shrinkage Manager to update the shrinkage account to reflect the invoiced debit/credit.
3. The Downstream Transporter shall:
 - . Pay the NTS Shrinkage Manager as invoiced in 2a.
 - . Recoup the amount by invoicing Shippers as defined in 1c.
4. The Shipper shall:
 - . Pay the Downstream Transporter as described in 3b
5. If a Shipper Termination occurs, any outstanding amounts shall be subject to the current UNC Rules
6. If any amount is un-collectable from a Shipper, the outstanding amounts shall be re-calculated and smeared across all Shippers. This may apply in cases of Shipper Termination where a Shipper has terminated prior to the identification and invoicing of an error that was in a period before it terminated.
7. However, where a Shipper voluntarily exits the market (a case of Voluntary Discontinuance) the Shipper

will request to be billed in full for any outstanding amount owed to the Transporters for these errors.

Business Process analysis

1. New process only applies if the error is >50GWh (under recorded).
2. New process only applies where the error results in a net debit to Shippers.
3. NGT notifies Xoserve of Meter Offtake Error report
4. Xoserve applies official SAP values to energy quantities and provides total energy financial amount to NGT.
5. NGT raises an invoice to impacted DN on behalf of the NTS Shrinkage manager for payment of the energy equivalent charge and on behalf of itself for payment of the NCO equivalent charge for the whole Meter Offtake Error
6. Where the impacted DN is NGD the invoice will not include VAT.
7. The impacted DN will make payment in full for the Meter Offtake Error debit amounts to NTS
8. Xoserve will raise ad-hoc invoices (on behalf of the impacted DN) to each Shipper for the Meter Offtake Error, debit amounts for each month over the period the Meter Offtake Error occurred.
9. Invoice supporting information (for all months) will be provided to each Shipper in the first month.
10. The ad-hoc invoice for the first month will be submitted to Shippers 5 days after the back up information for the Meter Offtake Error has been provided. Ad-hoc invoices for subsequent months will be issued without such a delay.
11. All payments will be due 12 days following submission of the invoice.
12. The Shipper debit amounts will be credited to the impacted DN.
13. Where a Shipper terminates, the payment of the remaining Meter Offtake Error liability shall be shared across the remaining Shippers.
14. Where a Shipper voluntarily exits the market (a case of Voluntary Discontinuance), the Shipper will request to be billed in full for any outstanding amount owed to the DN for these errors.

Concept for Billing and Cash Collection



ROM Costs & Timescales

Note: ROM information is not based on any formal systems analysis and should be used with caution.

Estimated costs:

The solution for new or amended Xoserve systems and processes will cost at least **£45k**, but probably not more than **£85k** to develop.

Estimated duration:

The analysis phase will take at least 16 weeks, but probably not more than 22 weeks, from the time that Xoserve is instructed to commence work.

Delivery; including detailed analysis and post implementation support; will take at least 12 weeks, but probably not more than 15 weeks from the time that Xoserve is instructed to commence work.

Timescale guidance:

- The earliest opportunity that the change could started is sometime in Quarter-1 2012.

Project costing assumptions:

- It is assumed that a detailed Analysis Phase will be required to capture all requirements, affected screens and processes, and to confirm the technical design as a basis for robust costing and implementation planning.
- The ongoing Operational support costs are based on one Offtake error per annum.

Xoserve cost estimates include:

- Infrastructure service implementation.
- Additional system improvements that would be required due to the consecutive monthly Billing to Shippers.

Xoserve cost estimates do not include:

Ongoing operational costs for provision of the service

The IS environment costs.

Assumptions

- NCO equivalent and energy equivalent charges will be billed using new charges types.
- Cash collection for NCO equivalent charges and Energy equivalent charges will be performed by the impacted DN.
- DNs recovery of NCO equivalent & Energy equivalent charges from Shippers will managed by the DN
- DN to DN Offtake Metering error processes will not be changed as part of the new process.
- If new Charge Types are required, 1 month notice to UK Link committee before implementation would be required. If a new invoice is required then 6 months would be required.
- Neutrality will not be used for this process.
- Smearing charges (unpaid by a terminated shipper) will not affect the upper end of the estimated cost range.

Concerns

- The principle of Modification 0335 is to limit the impact of a material Meter Offtake error charges on Shipper cashflow; however, the Transportation debit amounts are not material, but the billing of Transportation debits and payments that result from a Meter Offtake error are complex.
- Current system functionality would not allow overlap of multiple error periods. This is because (potentially) the length of the error period, there is a risk that the current process and system will have to manage multiple parallel errors.
- This change will make the currently managed manual processes more difficult to manage.
- There will be additional complexity for the billing of equivalent Transportation and energy charges between DNs and NGT.

- Potentially new credit arrangements between DNs and Shippers will be required.
- Rule 6 of the MOD0335 Business Rule does not specify that ZCO charges should be included in the smear.
- This ROM shows the cost range that may be required to change Xoserve's systems to enable calculation of the total Offtake error amounts between UKT and relevant DN and scheduled billing of Shippers across the error period only. The financial accounting processes are potentially complicated within DNs and UKT. These issues are out of scope for this ROM.

Impacts on DNs

- Potential new invoice types and charge types for the Billing of the equivalent elements of the Offtake Error will impact DN accounting processes.
- Additional cash collection and billing responsibilities.

Impacts on UKT

- Potential for new invoices and new charge types to bill DNs for the equivalent charge elements of the Offtake Error will impact UKT accounting processes.

Impacts on Shippers

- The Potential new invoice types and charge types for the billing of the equivalent elements of the Offtake Error will impact Shipper accounting processes.
- Shippers may need to consider how they financially treat the equivalent elements of the Offtake Error
- Supporting data for invoices will be provided with the first invoice only of the Meter Offtake error.
- Additional financial security arrangements are required because of exposure to DN until all monies are recovered (J Fergusson presentation at Distribution Workstream 26th May 2011).