Joint Office of Gas Transporters

Stage 01: Proposal

0395:

Limitation on Retrospective Invoicing and Invoice Correction

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.

The Proposer recommends that this modification should be sent to a workgroup for development

High Impact:
None

Medium Impact:
Shippers, National Grid NTS Shrinkage Provider

Low Impact:
Gas Distribution Networks, National Grid NTS

What stage is this document in the process?

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02 Workgroup Report

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About this document:

This document is a proposal, which has been considered by the Panel on 18 August 2011 and was sent to a Workgroup for assessment.

Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this modification should not follow Self Governance procedures.

Why Change?

Under the current UNC rules (as implemented by modification proposal 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 152V were developed as part of modification review group 126, and at the time there was a view within industry that the timeline for reconciliations should be shortened further. However, there was reluctance to bring this forward at the time as this was perceived to be too large a step for industry and experience of working with a 4-5 year model was required. The industry has now had over 3 years experience of working with a 4-5 year reconciliation window and recent data presented to 28 April 2011 Distribution Workgroup has demonstrated that reducing the window further would not have a material impact on energy allocation. Reducing the reconciliation window would; however, reduce the risk exposure of Shippers to large and unexpected bills. 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 & Costs

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

Due to the low value costs of implementation we propose that this modification proposal 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 1 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 proposal facilitates said review.

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

Recommendations

The Proposer invites the Workgroup to recommend that Modification 0395 progress to Consultation.

2 Why Change?

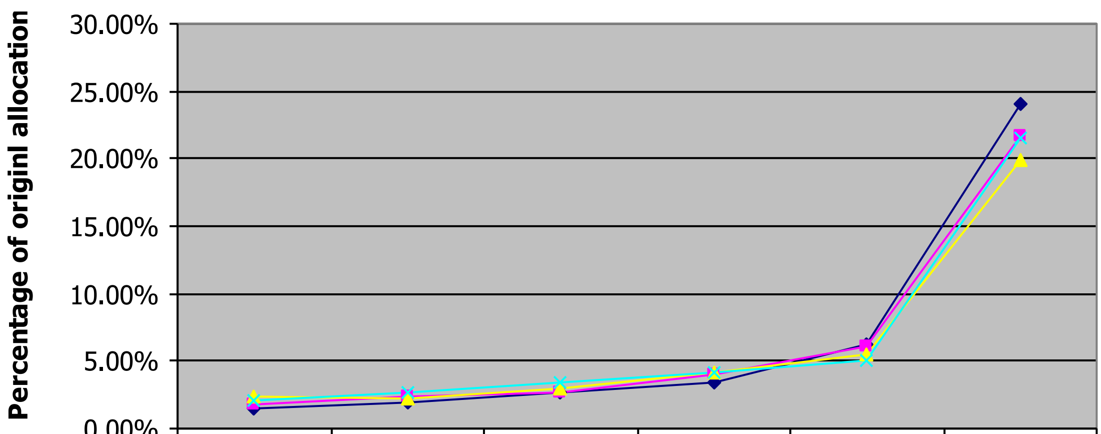
UNC Modification 0152V

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

Un-reconciled Energy

At the 28 April 2011 Distribution Workgroup xoserve provided data that demonstrated that reducing the window further 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



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

Risk Reduction

Although the volume of unallocated energy is relatively small after 2 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.

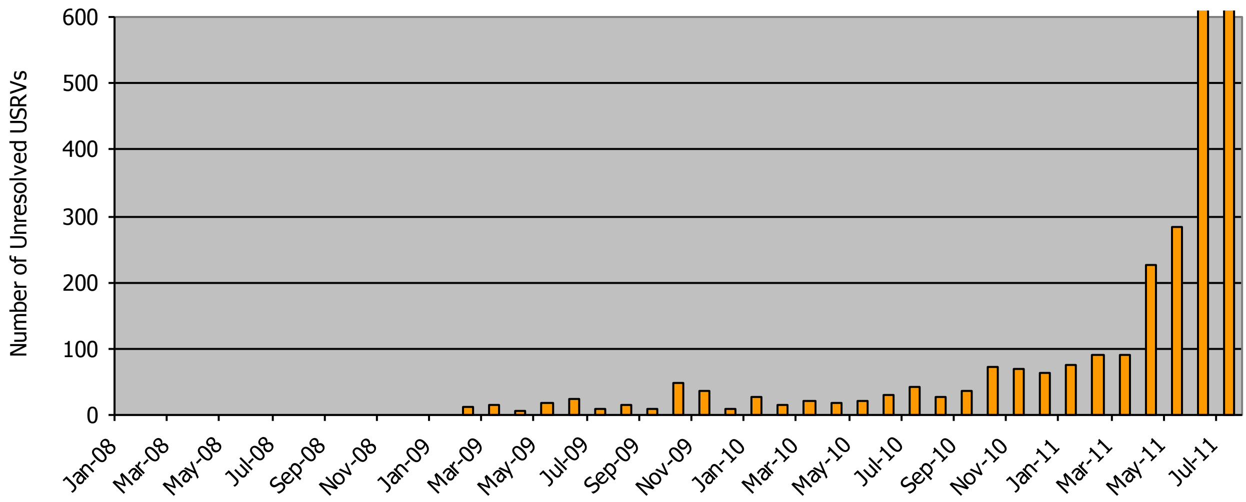
The 3 year model was also proposed as it aligns with Supplier obligations to conduct a safety inspection every 2 years. We note that this compares to the UNC requirements which support the submission of a meter reading every year, with must read requirements kicking in at 2 years. It therefore seems 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, we believe 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. We also note 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.

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 is 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



The proposer has 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 proposal 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 we recognise that with implementation of this modification proposal the financial incentives that a Shipper is exposed to for USRVs that are not resolved or actioned will reduce we do not intend to address this issue at this time.

We note 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 we believe that the USRV incentive mechanism should be reviewed by a separate modification proposal. We 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 our view that this should be addressed by a separate modification proposal.

NTS to LDZ Meter Errors

At the workgroup meeting on 10 October 2011 National Grid NTS provided a presentation that suggested, based on their analysis that implementation of 0395 may have resulted in under £10 million pounds of energy, associated with NTS to LDZ meter errors not being targeted correctly. They 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 proposal it is recognised that this modification could impact on the allocation of energy once a NTS to LDZ meter error has been identified. We disagree with NGG NTS' view that this could have a detrimental impact on LDZ Shippers as a result of an over recording meter error. We note that based on the Meter Error Spreadsheet, available from the Joint Office of Gas Transporters, roughly 1,707 GWh of energy has been under recorded by meter errors, as opposed to 0.33 GWh of over recorded energy. Therefore 99.98% of energy associated with meter errors is under recorded. We further believe that the impacts identified by NGG NTS have over estimated the impact of this modification proposal. In particular evidence suggests that the time taken to identify meter errors is getting shorter as NGG NTS has been incentivised to identify meter errors and reduce Unaccounted for Gas (UAG) in its SO role. Finally we note that this energy at risk equates to 0.064% of NTS throughput.

We further believe that NGG NTS as contractual counterparty through the UNC is best placed to manage and reduce these risks. In particular we note the "successes" that have occurred in meter error identification as a result of NGG NTS' data mining. Further the industry is well placed to reduce the timescales associated with the invoicing of an NTS to LDZ meter 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.

We therefore recognise that this proposal may have an impact on NTS to LDZ meter errors and their reconciliation, but believe that the overall benefits from reduced risk exposure for customers outweighs the potential risks from incorrectly allocated energy. There are clear interactions with the SO incentives being developed for 2012-13 and longer term for 2013-21; where we note there is a view that a Licence Condition will be placed on NGG NTS to reduce UAG associated with NTS to LDZ meter errors. This proposal is expected to be implemented alongside the introduction of the new SO incentive schemes from 1 April 2013 and so it could be expected that the impact of this proposal on NTS to LDZ meter errors will reduce.

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 0152. This is an existing issue that this proposal has helped to identify. We have discussed this with Xoserve, and do not propose to address this issue within this modification proposal. 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 proposal.

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 October 2012.

4 Relevant Objectives

Implementation is expected to better facilitate the achievement of **Relevant Objectives d and f.**

Proposer's view of 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: the securing of effective competition between Shippers

Reduces risk to Shippers/Suppliers. Results in greater shipper confidence in gas volumes being metered and billed for, thereby increasing incentives on shippers to balance their positions. Improves ability to set prices across whole market and reduces barriers to entry for Shippers/Suppliers, therefore improves competition.

There is also expected to a benefit to Shippers from reduced data retention as they are no longer required to hold data going back up to 5 years to be able to validate any potential invoices.

This proposal will also benefit competition by limiting the period over which retrospective invoicing can occur. We note that in the modification report for 0326VV it is noted that:

> "Other parties believe that allowing retrospective cost allocations creates risk and uncertainty … The increased risk and uncertainty would be counter to facilitating the securing of effective competition between Shippers, and may be particularly difficult for smaller shippers to manage since they do not have portfolios that provide an effective hedge."

This view was further supported in discussions on 0369 on 27 October, when concerns were expressed by the chair of ICOSS and a small Shipper that retrospectivity creates risks and is detrimental to competition. This proposal reduced the length of retrospective invoices and so is beneficial to competition.

Relevant Objective f: promotion of efficiency in the implementation and administration of the Code

Improves Xoserve's efficiency and lowers their costs over the long term. The 3 year model gives sufficient time to reconcile all reconcilable sites (some sites will never reconcile as they no longer exist – no matter the length billing period). Xoserve data presented at the Distribution Workgroup meetings highlights a significant drop in un-reconciled energy well before the cut-off date.

5 Impacts and Costs

Consideration of Wider Industry Impacts

The proposer does not consider that this modification will have wider industry impacts.

Costs

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

Due to the low value costs of implementation we propose that this modification proposal 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 proposal as User Pays or not and justification for classification
This proposal 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	• None

Operational Processes	• Impact on system testing when roll over occurs every year
User Pays implications	• Minimal

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• None
Development, capital and operating costs	• None
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• 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.

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 proposal 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 20th March and a reading was not procured until 10th April, then the period from 20th March Y+2 to 1st 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 proposal. 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 the 0395 workgroup on 12th 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:

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

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 which went into the must read process for the each month, and whether they were categorised as monthly read or non monthly read. This proposal will only impact on the non-monthly read must 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 proposal.

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 proposal 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 proposal by actively managing the must read notifications that are sent to Shippers by Xoserve. Indeed a potential benefit of implementation of this proposal is that it encourages Shippers to more actively manage their must read portfolio.

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
C	• 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)	• None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	• None
Storage Connection Agreement (TPD R1.3.1)	• None
UK Link Manual (TPD U1.4)	• None
Network Code Operations Reporting Manual (TPD V12)	• None
Network Code Validation Rules (TPD V12)	• None

Impact on UNC Related Documents and Other Referenced Documents	
ECQ Methodology (TPD V12)	• None
Measurement Error Notification Guidelines (TPD V12)	• None
Energy Balancing Credit Rules (TPD X2.1)	• None
Uniform Network Code Standards of Service (Various)	• None

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

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

6 Implementation

It is the aspiration of the proposer that this modification is implemented for the 1 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 October2013 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.

7 The Case for Change

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

Advantages

May encourage Shippers to improve their safety and must read process so that all sites are reconciled.

Disadvantages

None identified.

8 Legal Text

Suggested legal text:

Uniform Network Code – General Terms

Section C – Interpretation

Update Section C to read:

"**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

9 Recommendation

The Proposer invites the Workgroup to:

- Recommend that Modification 0395 progress to Consultation