

Representation

Draft Modification Report

0395: Limitation on Retrospective Invoicing and Invoice Correction

Consultation close out date: 03 February 2012
Respond to: enquiries@gasgovernance.co.uk
Organisation: EDF Energy
Representative: Stefan Leedham
Date of Representation: 03 February 2012

Do you support or oppose implementation?

Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

The evidence presented to the workgroup on this topic has clearly demonstrated that reducing the reconciliation window will not have a material impact on energy allocation, whilst providing a benefit to suppliers from a reduced risk profile as Shippers will have assurance that the settlement process has closed. Implementation of this proposal would also more closely align the settlement window with the back billing arrangements that domestic suppliers currently adhere to as well as the electricity settlement arrangements. Implementation of 152 has 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 proposal would provide a further incentive to act in a timely manner to ensure accurate energy allocation.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

We are not aware of any new issues that have been substantiated with supporting evidence.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

As noted in the workgroup report we believe that implementation of this proposal will facilitate relevant objectives A11.1 (d) and A11.1 (f).

Implementation of this proposal will have a beneficial impact on competition by providing greater certainty and confidence in the gas volumes being metered and billed for. In particular we note 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 to their costs until 5 years after the event and will have no historical information to analyse and calculate this risk. Implementation of this proposal would reduce this uncertainty and so barrier to entry and so may encourage new Shippers to enter the market.

Further we note that although this may create issues and risks for LSP Shippers it would appear that this is manageable and can be reduced by these Shippers. In particular we 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.

Implementation of this proposal may therefore be deemed to benefit competition by transferring risk to those who are best placed to manage and reduce this risk. The evidence presented by Xoserve supports this view as the impact of 0152V has resulted in timely and accurate resolution of USRVs prior to the cut off date.

Implementation of this proposal will also promote efficiency in the administration of the code for both Transporters (Xoserve) and Shippers by reducing the number of invoices that occur on the back of old reconciliations. We recognise that that this benefit is on a different scale to the benefits from competition, but note that this is not immaterial.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

We believe we will face some increased costs at implementation to ensure that we resolve any outstanding USRVs prior to the new cut off date taking effect; however, this would be transient in nature and so we expect no impact on our costs post 1 April 2013.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

We believe that the implementation lead time identified in the modification proposal is appropriate and provides sufficient lead time for Shippers and ultimately Xoserve to resolve any outstanding USRVs prior to the cut off date moving forward.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

We are satisfied with the legal text.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

As noted in the modification report, there was a recognition that implementation of this proposal may have an impact on the allocation of energy resulting from the identification in the NTS to LDZ meter. National Grid, suggested that this may result in the misallocation of up to £10m of energy from the NTS to SSP Shippers based on their scenarios. It would appear that there are several issues to consider regarding this:

1. It is unclear how National Grid arrived at the value of £10m – they appear to have chosen to take off a cut off point for analysis, but have not explained how this was reached. Recent evidence has shown that meter errors are being detected quicker and so the duration of a meter error is reducing. It would appear that the quicker a meter error can be identified and rectified the less an impact this proposal will have on this energy. We therefore 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.
2. The energy at risk identified by National Grid equates to 0.064% of throughput, suggesting that this impact may be immaterial.
3. 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 a 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 the initial cost of this error was funded by NTS Shippers in one year, the refund does not flow until the following year. The end result being that these refunds are not correctly targeted to NTS Shippers. Notwithstanding our 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 proposal, then this could be facilitated and should not be seen as an issue preventing implementation.

We also note that concerns have been raised by some parties with regards to the interaction on the statute of limitations. This appears to be an issue specific to I&C Shippers, with domestic Shippers adhering to the ERA back billing code to not back bill for greater than 12 months. There appear to be two views on the impact of the Statute of Limitations; 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. Were the latter to apply then it would not appear 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 we 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 on the other. However the evidence provided by Xoserve to the 27 October workgroup 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. At the same time consumer focus has highlighted issues in their response regarding the number of back billing complaints, which we would imagine are caused by debits to I&C customers and so one would expect a reciprocal credit to the SSP market. There is clearly inconsistent evidence on this issue and 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.
