

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: National Grid NTS
Representative: Claire Thorneywork
Date of Representation: 03 February 2012

Do you support or oppose implementation?

Comments

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

National Grid NTS (NG NTS) is responding to this Modification Proposal in the context of the impacts the proposed changes may represent to the operation of the National Transmission System and NG NTS's ability to appropriately carry out its duties in line with its Licence Obligations and the UNC.

We understand that, as a principle objective, this Modification Proposal seeks to reduce 'the risk of shipper exposure to large and unexpected bills'. We note that the Proposal suggests that this risk is predominantly a risk associated to shipper activity within a LDZ. However in the context of LDZ Offtake Meter Errors, we 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.

NG NTS notes that any reduction in the limitation on retrospective invoicing will further inhibit the NTS Shrinkage Provider in its requirement to effectively re-apportioning 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 we consider that, to a greater extent, the decision as to whether to reduce the limit on retrospective

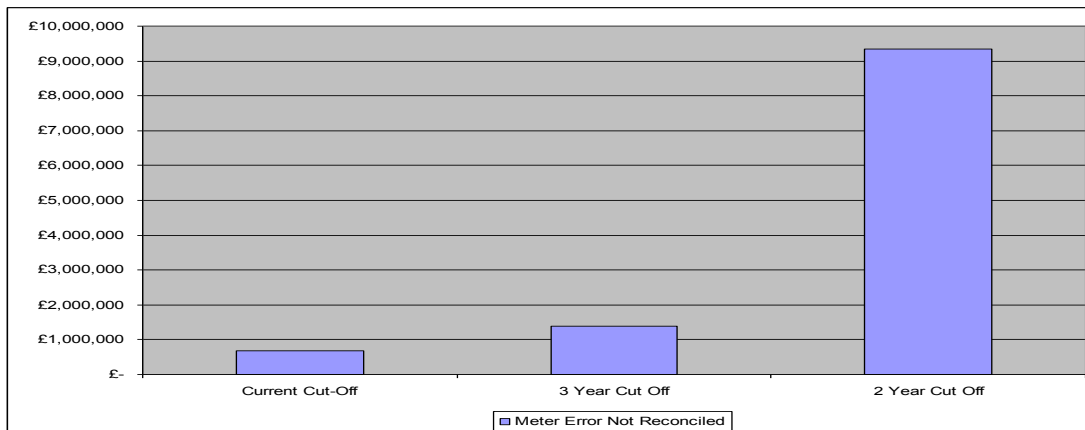
invoicing, and invoice correction, to a 2 to 3 years back stop is a decision which lies with the shipping community.

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

As part of our response we have provided additional information, which we hope may assist the Authority in reaching a decision on the outcome of this Proposal.

Shrinkage Provider Analysis

In its role as System Operator (SO) NG NTS is required to seek to appropriately allocate costs to those who have incurred them. In order to assist the community in determining whether or not to support this Proposal NG NTS has provided the graph set out below. The graph seeks to illustrate the estimated level of cost associated with LDZ Offtake Meter Error that will be reconciled but the costs unrecovered, if the retrospective invoicing limit is reduced. This graph therefore represents the energy value will remain as a cost socialised across NTS Users.



We note that the Proposal states that, 'Xoserve provided data that demonstrated that reducing the window further may not have a material impact on energy allocation'. This reference relates specifically to the impact of un-reconciled energy downstream of the NTS/LDZ interface i.e. **within** LDZs and therefore any adjustments made only affect Users active within the LDZ. However, we believe that the material impact of reconciliation associated with LDZ Offtake Meter Errors and therefore impacting NTS Users should also be considered when making a determination on this Proposal. **LDZ Meter Error Reconciliation Guidelines**

NG 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. The timescales associated with agreeing the SME assessment process is governed by the industry through the application of the 'Measurement Error Notification Guidelines for NTS to LDZ and LDZ to LDZ Measurement Installations' as referenced in the UNC section V12 – 'General Provisions Relating to UNC Related Documents' and OAD Section D3.1.5. We 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. We question whether the prevailing governance of timeframes associated with resolution and invoicing of a LDZ Offtake Meter Error Reconciliation, and the introduction of reduced limitation on retrospective invoicing, creates unintended consequences which may benefit some Users to the detriment of others.

Associated Modification Proposal

NG NTS notes that there are currently three 'Live Modification Proposal' which seek to initiate changes to reconciliation and invoicing process:

- 0335 - Offtake Metering Error - Payment Timescales;
- 0335A - Significant Offtake Metering Error - Small Shipper Payment Timescales;
- 0398 – Limitation on retrospective invoicing and Invoice Correction ((3 to 4 year solution)

We believe that these Proposals may impact this Proposal 0398 and should not be consider in isolation. We therefore suggest that the determination and approval of each of these Proposals are made after fully considering their effects on each other.

SO Incentive performance

In response to proposers statements regarding NG NTS performance in respect of the UAG SO incentive associated with NTS offtake meter errors, data mining and reduction of UAG, NG NTS notes that to date NG NTS has received zero UAG incentive revenue. Since 2009 NG NTS has undertaken a range of activities to address UAG and, whilst delivering User benefits, has incurred additional cost for carrying out these activities. The cost to NG NTS for Data Mining initiatives from April 09 to date was ~£240,000.

NG NTS is cash neutral in respect of LDZ Offtake Meter Reconciliation furthermore it does not own NTS/LDZ meters as NTS Connected Meter Assets predominantly owned by DN's, Terminal Operators and Large Industrial End Consumers. NG NTS has a Meter Assurance role and therefore monitors Asset Owners compliance with Meter validation obligations.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

As previously stated we consider that there is a balance to be made between mitigating risk of shipper exposure to 'unexpected bills'; and minimising the socialisation of cost on NTS Shippers.

In the context of LDZ Offtake Meter Errors we are mindful that the greater the reduction in mitigating exposure to shippers within the LDZs, the greater the increase in socialisation of cost; and vice versa. Although the Proposal suggests a benefit to Users through the reduction of risk associated with unexpected bills, it does not address the issue of increasing costs associated with socialisation of such un-reconciled energy, costs borne by NTS Users. In the context of weighing up the Proposal's stated benefit against its potential cost to NTS Users, we do not believe that this Proposal provides sufficient evidence to suggest that its implementation would provide any net improvement to any of the relevant objectives.

Impacts and Costs:

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

NG NTS estimate that implementation of this Proposal 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 we would expect this to reduce over time provided the incentives for meter assurance improvements are maintained.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why? Modification Panel Members have indicated that it would be particularly helpful if respondents could indicate their preferred implementation timescale.

Legal Text:

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

Yes

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.

I hope these comments are helpful to the Modification Panel and the Authority please contact me should you have any question regarding this representation.

Yours sincerely

{By email}

Claire Thorneywork

Gas Codes – Commercial Frameworks

UK Gas Transmission

National Grid

Tel; 01926 65 6383

E-mail: Claire.I.Thorneywork@UK.NGRID.com