

Review Group Report

Review Proposal 0272

Mod 640 Validation Arrangements for when a Change of Shipper has occurred

Version 2.0

1. Review Proposal

EDF Energy raised Review Proposal 0272, for which the Terms of Reference are on the Joint Office web site at www.gasgovernance.co.uk/0272.

2. Review Process

In accordance with the Modification Rules, at its meeting on 19 November 2009, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by and approved by Review Group attendees.

3. Areas Reviewed

The Review Proposal identifies that Network Code Modification Proposal 0640 was implemented with effect from 28 June 2004. This proposal was designed to place an incentive on Shippers to actively manage their SSP-LSP portfolio during the year to ensure that energy was correctly allocated. Subsequently UNC Modification Proposal 0095 was implemented in October 2006, this enables End of Year Reconciliation charges to be targeted at SSP-LSP crossers even when a change of registered Shipper has occurred during the year, applied in proportion to the duration of ownership in the period impacted.

Modification Proposal 0094 was also implemented in October 2006, this allowed End of Year Reconciliation charges to be applied to sites where the AQ had changed by less than 20% or 15,000 kWh. This therefore increased the number of sites that were close to the threshold and so would be exposed to End of Year Reconciliation charges. Modification Proposal 0136V was implemented in August 2007, this amended the UNC so that if a SSP site had been appealed to LSP between October and March 90% of the End of Year Reconciliation charges would apply, whilst SSP-LSP appeals outside of this window would be exposed to 100% of End of Year Reconciliation charges.

The invoice is issued in March each year. However when this invoice is issued Shippers have no way of validating the invoice for SSP-LSP crossers that were no longer in their ownership when the annual AQ review took place, and in some cases all the data held by the old Shipper suggests that the site was, and should have remained as a SSP site and so End of Year Reconciliation invoices should not have been incurred.

The Review Group considered the following topics to ensure the relevant areas were reviewed and recommendations identified:

- 3.1. Information Provision to previous Shippers to validate End of Year Reconciliation invoices
 - What information should be made available to validate the End of Year Reconciliation invoice

- When this information should be provided
 - Whether this is a User Pays service and what the funding arrangements should be if it is a User Pays service
 - Any other issues that relate to the provision of information to previous Shippers to validate End of Year Reconciliation invoices
- 3.2. Whether a disputes mechanism for End of Year Reconciliation invoices is required, when there is information to suggest that the Supply Meter Point crossed the SSP-LSP threshold during a particular Shipper's ownership is an inter-Shipper dispute mechanism required to ensure costs are correctly targeted?
- Where a disputes mechanism is required
- Which parties should be involved in a disputes mechanism
 - When this should occur – start and end dates
 - What would the rules of any dispute mechanism be
 - What should the governance of such disputes mechanism be
 - Whether this is a User Pays service and what the funding arrangements should be if it is a User Pays service
 - Any other issues that relate to the arrangements to dispute a End of Year Reconciliation invoice were a change of supplier has occurred
- 3.3. Consider how best to implement the outcome of this review and whether a modification proposal should/could be raised prior to the review group concluding.

4. Review Group Process

The Review Group agreed a workplan based on the topics listed in 3 above (see appendix 1) and assigned actions to owners.

5. Conclusions

The Review Group initially considered the materiality of the Review Proposal and whether it merited a change to UNC. Evidence was provided to the Review Group identifying the invoice value for 2009 End of Year Reconciliation charges, which were in the region of £24.99million and affected 23,009 MPRNs; for 2010 End of Year Reconciliation charges amounted to £17.35m and affected 20,476 MPRNs. The Review Group concluded this was sufficient evidence to review the process and identify changes if required.

The Review Group discussed the following topics in accordance with the proposed workplan.

Topic 1 Information Provision to previous Shippers to validate End of Year Reconciliation

The Review Group considered the provision of information and concluded the current provisions were inline with UNC requirements. However, Shipper members were concerned that the level of information provided was insufficient for their needs

and report should be made available by xoserve to support the validation of invoices on a User Pays basis.

Topic 2 Whether a disputes mechanism for End of Year Reconciliation invoices is required, when there is information to suggest that the Supply Meter Point crossed the SSP-LSP threshold during a particular Shipper's ownership is an inter-Shipper dispute mechanism required to ensure costs are correctly targeted?

The Review Group concluded a disputes process was desirable, though there was doubt it could be enforced through UNC provisions, particularly where independent Suppliers were involved. A number of options were considered, such as including a disputes process in UNC or to adopt an industry code of practice through the Gas Forum. Review Group Members concluded that there might be merit in a disputes process and timeline, although there were split views as to whether this should be enforced through UNC provisions or through an industry code of practice. The Review Group also commented that whilst a dispute process may be beneficial, it was still unclear as to value of the number of disputes that would be raised by Shippers each year. The Review Group felt that the provision of information to previously registered Shippers may help Shippers to identify the materiality of this issue and so inform any future Modification Proposal.

Topic 3 Consider how best to implement the outcome of this review and whether a modification proposal should/could be raised prior to the review group concluding.

The proposer raised a draft proposal (see appendix 2) for consideration by the Review Group. Following a period of discussion and amendment, the Review Group concluded the draft proposal offered a reasonable solution to resolve the issues of information provision raised in section 3 above.

6. Recommendations

The Review Group considered the topic items listed in section 3 and agreed the draft proposal set out in appendix 2 provides a suitable mechanism to resolve the issues raised by the existing End of Year Reconciliation invoice process for those who wished to take the report.

APPENDIX 1

Above. 10 December 2009

Agree terms of reference

14 January 2010

Concluded Workplan

Overview of proposal

Information Provision Requirements & issues

11 February 2010

Draft Modification Proposal for information provision discussions

Inter Shipper discussion process

Objectives

High level processes

Governance

11 March 2010

Draft Modification Proposal for information provisions discussions (if required)

Inter Shipper discussion process

Timelines

Information Requirements

Notifications to xoserve

28 April 2010

Draft Modification Proposal for information provisions discussions (if required)

Inter Shipper discussion process

Initial Business Rules

Process walk through

Timeline

UNC Mod requirements

24 May 2010

Inter Shipper discussion process

Draft Mod Proposals discussion o Detailed business rules (if required)

Draft Workgroup report initial discussions

Appendix 2 Draft Proposal

CODE MODIFICATION PROPOSAL No xxxx

Information Provision to Support Validation of Mod 640 Invoices

Version x.x

Date: 17/06/2010

Proposed Implementation Date: 01/10/2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

Network Code Modification Proposal 0640 was implemented with effect from 28 June 2004. This proposal was designed to place an incentive on Shippers to actively manage their SSP-LSP portfolio during the year to ensure that energy was correctly allocated.

UNC Modification Proposal 0095 was implemented in October 2006; this enables Mod 640 charges to be targeted at SSP-LSP crossers even when a change of registered Shipper has occurred during the year, applied in proportion to the duration of ownership in the period impacted.

Modification Proposal 0094 was also implemented in October 2006, this allowed Mod 640 charges to be applied to sites where the AQ had changed by less than 20% or 15,000 kWh. This therefore increased the number of sites that were close to the threshold and so would be exposed to Mod 640 charges. Modification Proposal 0136V was implemented in August 2007, this amended the UNC so that if a SSP site had been appealed to LSP between October and March 90% of the Mod 640 charges would apply, whilst SSP-LSP appeals outside of this window would be exposed to 100% of Mod 640 charges.

The mod 640 invoice is issued in March each year. However when this invoice is issued Shippers have no way of validating the invoice for SSP-LSP crossers that were no longer in their ownership when the annual AQ review took place. The Mod 640 invoice in March 2010 for Gas Year 2008/09 was £17.35m for the industry. From the information provided by xoserve to the 272 review group, roughly 2,840 or 19% of Supply Points that incurred a mod 640 charge for 2008/09 had more than 2 Shippers registered during the relevant period. This equates to a total Mod 640 invoice of £3.26m which Shippers are unable to validate.

In response to these issues EDF Energy raised UNC Review Proposal 0272 with a view of identifying what information could be provided to Shippers to allow them to validate their Mod 640 invoices

when they were no longer the registered Shipper. This would allow Shippers to prepare for the settlement of this invoice and conduct the validations required to support the payment of an invoice of this scale.

This modification proposal represents the outcome of these discussions.

The Modification Proposal

It is proposed that the UNC is amended so that the Gas Transporters are required to produce an annual report for the Supply Points that Shippers are no longer registered to that it is expected that they will receive a Mod 640 invoice for, containing sufficient information for them to validate the Mod 640 invoice.

In particular it is proposed that the UNC is amended so that:

- The Gas Transporters will produce an annual report by Shipper Short Code. This report will provide a snapshot as of 1 October of the Supply Points that Shippers have been registered to in the relevant period that they are no longer registered to, that it is expected they will receive a Mod 640 invoice for. This report will be delivered no later than [x Business Days] after 1 October.
- The report will also provide the following information:
 - Confirmation Reference Number
 - Opening and closing meter readings and all meter readings between these and their associated dates used for setting the AQ where available on sites and meters
 - Round the clock (TTZ) counts
 - Serial Number of the Meter and convertor if applicable – current and historic for the period being billed.
 - Date of change in asset data – meter and convertor if applicable
 - The names of all Shippers registered during the period being charged for under the Mod 640 invoice and their dates of registration [need to check from data protection angle]
 - All registered AQs and their dates of registration since the last annual AQ review – this is required to identify whether the AQ has been changed as a result of an AQ Appeal or AQ Amendment

For clarity it is recognised that not all of these sites covered by this report will ultimately incur Mod 640 invoices as the current registered Shipper may appeal the AQs after the snapshot date. However it is expected that publication at this time will allow Shippers sufficient

time to run internal processes and validate the charges and initiate any inter-Shipper discussions. It should be noted that this Modification does not propose to introduce any formal inter-Shipper discussion process of requirements and so these discussions will take place outside of any formal governance or requirements.

- b) **Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

Non-Urgent Modification Proposal

- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

The information to be provided in this Modification Proposal has been discussed within Review Group 0272, along with the draft Modification Proposal. It is recommended that this proposal be issued for Consultation.

2 User Pays

- a) **Classification of the Proposal as User Pays or not and justification for classification**

User Pays

The implementation of this proposal would introduce a new requirement on the Gas Transporters' Agency and there will be a cost associated with this new service. This meets both NGG NTS' and the GDNs' definition of a User pays service.

- b) **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

Development and Operational Costs 100% Shippers 0% Transporters

Mod 640 was introduced to protect RbD Shippers by ensuring that LSP sites were appropriately managed and energy allocated throughout the year. Implementation of this proposal will benefit Shippers by allowing them to validate their invoices.

- c) **Proposed charge(s) for application of Users Pays charges to Shippers**

Development Costs [p/registered SSP at date of implementation]

Mod 640 invoices only apply to sites that cross from SSP to LSP in the year. Mod 640 was also designed to protect RbD Shippers it therefore appears appropriate to recover costs from this market.

Operational Costs [£/report]

The operational costs will be around the production of the annual report it is therefore suggested that the charges are recovered by ordered report. This will be consistent with SLC A15.5.

- d) **Proposed charge for inclusion in ACS – to be completed upon receipt**

of cost estimate from xoserve

[TBC]

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligation under this licence;

Standard Licence Condition A15.5 requires the Transporters to develop charges for User Pays Services that are cost reflective. This proposal will introduce a User pays service and so the Transporters will have to develop charges through an ACS amendment that meets the requirements laid out in Standard Licence Condition A15.5. If Ofgem accepts this change then it could be deemed that they believe that the proposed charges ensure that costs are targeted at the Shippers causing them to be incurred. Therefore implementation of this proposal and the associated ACS methodology will help to discharge Licence Condition A15.5, in line with this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;

Implementation of this proposal would allow Shippers to adequately validate their Mod 640 invoices prior to payment. This will support Shippers as:

1. Shippers will be able to fully validate their Mod 640 invoices, even when they are no longer the registered Shipper for the Supply point that they are incurring Mod 640 invoices for. This will aid back office processes as invoices can be validated and payments authorised. This should reduce back office costs as the Mod 640 sign off process so be shorter (due to the presence of supporting information) and will avoid internal queries regarding the Supply Points and the associated Mod 640 Invoice. A reduction in Shipper costs should be beneficial to competition as these reduced costs could be directly targeted at competitive initiatives.
2. Further if the ability to validate Mod 640 invoices also reduced the volume of Mod 640 invoice queries raised, then this would also reduce Shippers' back office operational costs in raising and pursuing these invoices. A reduction in Shipper costs should be beneficial to competition as these reduced costs could be directly targeted at competitive initiatives.

At the margin implementation of this proposal may also reduce an insignificant

barrier to entry by reducing costs and improving certainty around invoices and so theoretically provide a benefit to competition. This is based on the grounds that unknown costs (such as the inability to validate a Mod 640 invoice) represent a risk to companies and new entrants. This could represent a small barrier to entry as a new entrant would have to ensure that this risk is covered in its business plan. Removing these costs would therefore reduce a barrier to entry as these costs would not need to be covered and so be beneficial to competition.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation of this proposal would benefit administration of the UNC by ensuring sufficient data was provided to support Mod 640 invoices issued by the Transporters.

4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

None identified

b) The development and capital cost and operating cost implications:

The User Pays nature of this proposal should ensure that the Transporters are not exposed to any additional development and capital cost and operating costs.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

The costs of implementation should be recovered through the User Pays mechanisms identified in Section 2 of this Modification Proposal.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

None identified

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

N/A

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

If Shippers choose to take this service, then they may have to amend their systems to support this. However due to the optional choice of receiving this report, it is expected that Shippers will only chose to take this report and amend their systems if they receive a benefit from the report.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

If Shippers chose to receive this report then it is likely that they will incur administrative and operational costs. These are likely to be manual, however it is expected that these costs will outweigh the benefits associated with improved transparency and validation of the Mod 640 invoice. If Shippers do not choose to receive this report then it is not expected that they will incur any additional costs.

b) The development and capital cost and operating cost implications

If Shippers chose to receive this report then they may incur development and capital cost and operating costs to process this report. It is expected that the benefits of receiving this report will outweigh these costs. If Shippers do not choose to receive this report then it is not expected that they will incur any additional costs.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

None identified

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

None identified

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

None identified

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

- Replicates standard practice of providing sufficient information to validate and settle an invoice
- Greater certainty for Shippers when carrying out their settlement and finance functions
- Improved Transparency
- Potential for reduced Mod 640 invoice queries
- Supports the potential introduction of a negotiation process to ensure that Mod 640 charges are targeted at the appropriate Shippers

Disadvantages

None identified

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

None identified

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

Implementation date of [1 October 2010], based on an Authority decision published on or before [TBC]

Implementation date of [1 October 2011], based on an Authority decision published after [TBC], but on or before [TBC]

If the Authority decision is published after the [TBC] the suggested flexible implementation date is [one (1) month] after an Authority decision being published

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) S

Proposer's Representative

Stefan Leedham

Proposer

EDF Energy

