Joint Office of Gas Transporters

Stage 01: Proposal

What stage is this document in the process?

01 Proposal
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

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

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About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 18 August 2011. The Panel will consider the Proposer's recommendation, and agree whether this modification should proceed to consultation or be referred to a Workgroup for assessment.

Any questions?

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1 Summary

Is this a Self-Governance Modification

It is proposed that this modification is not treated as a self-governance proposal as it impacts on reconciliation and energy allocation.

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.

Why is RbD a risk?

In order to manage their risk Shippers tend to hedge their gas requirements. However, in order to hedge against price risk the volume must be known. The volume of RbD on a monthly basis is not known and so it is not possible to hedge effectively against this.

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.

Impacts & Costs

Initial discussions with Xoserve have suggested that this proposal could be implemented for marginal costs, provided that it coincided with the annual re-setting of the backstop date – i.e. 1 April. It is therefore proposed that any additional costs of implementation will be recovered 50% from Shippers and 50% from Transporters. This will need to be reviewed and potentially amended when costs become more transparent.

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 2012 roll over. It is therefore proposed that the implementation dates are:

- 01 April 2012 if a decision is received prior to 01 March 2012
- 01 April 2013 if a decision is received prior to 01 March 2013
- If a decision is received after 01 March 2013 implementation should occur 1 month following the decision to implement.

The Case for Change

When workgroup 126 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

It is proposed that this modification should be sent to a workgroup for consideration, whilst recognising the aspiration for this modification to be implemented for a 1 April 2012 effective date.

2 Why Change?

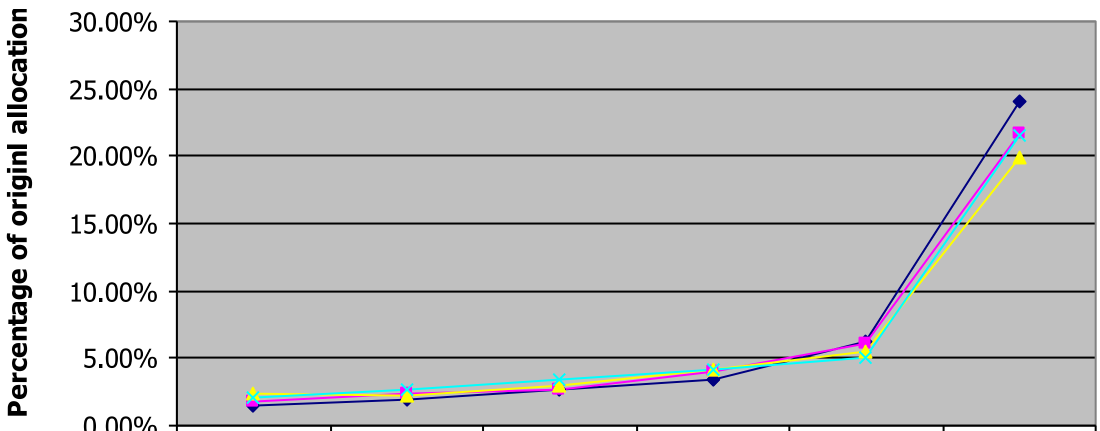
UNC Modification 152V

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. 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 unallocated 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. 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.

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 1/4/2012.
- 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.

Why not adopt a 4 year model?

The data presented to the distribution workgroup by Xoserve has shown that the amount of unreconciled energy reduces significantly after 2 years; there therefore appears to be limited value in keeping the reconciliation window open for longer than this when compared to the risks that Shippers are exposed to.

4 Relevant Objectives

Implementation is expected to better facilitate the achievement of **Relevant Objectives a, b, c, d, e 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

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.

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

Costs

Initial discussions with Xoserve have indicated that they update the backstop date every year, which is a manual process and requires some system testing. Provided that this proposal is implemented in line with the annual update it is expected that the only impact will be a requirement to conduct some additional testing. It is not expected that these costs will be material.

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 initially proposed that any additional development costs are recovered 50% Transporters and 50% Shippers. Any additional operation costs will be recovered 100% Shippers. If costs are confirmed as being minimal then the appropriate recovery mechanism should be discussed and reviewed by the development workgroup.
Proposed charge(s) for application of Users Pays charges to Shippers
p/kWh charge levied to all GDN Shippers based on UDQO on 1 April in year of implementation.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
TBC

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

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Insert text here

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	• None

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

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

Impact on UNC Related Documents and Other Referenced Documents	
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
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 2012 roll over. It is therefore proposed that the implementation dates are:

- 01 April 2012 if a decision is received prior to 01 March 2012
- 01 April 2013 if a decision is received prior to 01 March 2013
- If a decision is received after 01 March 2013 implementation should occur 1 month 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 Panel to:

- DETERMINE that Modification 0395 progress to Workgroup/Consultation