












| UNC Modification | At what stage is this document in the process? |
|---|---|
| <div>UNC 0886:</div> <div>Amend the Code Cut-Off Date to a Rolling 3-Year Period</div> | <div><div>01Modification</div><div>02Workgroup Report</div><div>03Draft Modification Report</div><div>04Final Modification Report</div></div> |
| <div><div>Purpose of Modification:</div><div>The purpose of the modification is to shorten the code cut-off date (or line in the sand) from a 3 to 4-year period to a monthly rolling 3-year period.</div></div> | |
| <div><div>Next Steps:</div><div>The Proposer recommends that this Modification should be:</div><div><div><div></div>considered a material change and not subject to Self-Governance</div><div><div></div>assessed by a Workgroup</div></div><div>This Modification will be presented by the Proposer to the Panel on 18 July 2024. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</div></div> | |
| <div><div>Impacted Parties:</div><div>High: Shippers, Suppliers, CDSP</div><div>Low: Distribution Network Operators, Independent Gas Transporters</div><div>None:</div></div> | |
| <div><div>Impacted Codes:</div><div>None Identified</div></div> | |

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| Timetable | |  Contact: |
| | | Joint Office of Gas Transporters |
| | |  enquiries@gasgovernance.co.uk |
| | |  0121 288 2107 |
| | | Proposer: Mark Jones SSE Energy Supply Limited |
| | |  mark.jones@sse.com |
| | |  07467 646256 |
| | | Transporter: David Mitchell SGN |
| | |  david.mitchell@sgn.co.uk |
| | |  07799 343082 |
| | | Systems Provider: Xoserve |
| | |  UKLink@xoserve.com |
| | | Other: Insert name |
| | |  email address |
| | |  telephone |
| | | |

1 Summary

What

The code cut-off date or the 'line in the sand' (LIS), is the term given as to how far back gas reconciliations and adjustments can be invoiced. This is currently a 3-to-4-year period, which rolls over on 01 April every year. In April 2008, a new section was introduced into the UNC following the implementation of Modification Proposal 0152V "Limitation on Retrospective Invoicing and Invoice Correction".

This proposal aimed to appropriately limit financial adjustments and reconciliations as, prior to the implementation of this modification, the backstop date for reconciliations was 1 February 1998 and so the potential period for reconciliations was continually growing. Gas reconciliations generally occur when Shippers submit meter readings to Xoserve and the actual usage at sites is then reconciled back to the estimated usage over the period that the meter reading covers. The estimates are based on usage calculated from the sites' Annual Quantity (AQ) values and the demand profiles used by Xoserve. Reconciliations or adjustments can also occur when a metering or data error is discovered which has an impact on the calculations of gas usage.

Therefore, prior to the implementation of modification 0152V, the reconciliation risk to shippers was growing each year, and whilst this risk may have seemed small given that no meter reading reconciliations were going back several years, what brought the issue into focus and resulted in modification 0152V was the discovery of a large Local Distribution Zone (LDZ) metering error on the gas network which went back several years and led to a multimillion pound charge to Shippers that could not be recouped from customers. There have been a number of these large LDZ metering errors over the years, and whilst they are relatively uncommon when they do occur, they usually lead to reconciliations that, overall, run into the millions of pounds.

Why

Since the implementation of modification 0152V, the UNC does not permit any invoice document to contain an invoice item or invoice amount which relates to a period prior to the code cut-off date (LIS), which is currently 01 April 2021. On 01 April 2025 this date will roll forward to 01 April 2022 and remain at that date until 01 April 2026 when it will roll forward by another year. These dates illustrate the 3-to-4-year LIS.

The reason why a 3-to-4-year LIS period was introduced was that the old UK Link Systems (prior to Project Nexus) had to be updated for a new LIS date by a manual method and it was labour-intensive to do it more than once per year. When the new UK Link systems were implemented by Project Nexus there were discussions that the LIS could be changed on a more frequent or rolling basis as the new Nexus systems should be easily able to accommodate a monthly LIS process, but until now no party has raised a modification to change the LIS. Whilst it is impossible to predict in which direction future reconciliations will go (either positive or negative), a shorter maximum reconciliation period lowers the risk of large, unexpected reconciliations or adjustments. From experience, the discovery of large gas network metering errors has, in the vast majority of cases, led to payments being made by Shippers because most metering errors tend to result in gas being under-recorded by meters rather than being over recorded.

How

The solution in this modification proposal will keep the initial 36 month LIS period, but rather than roll it annually, it will roll forward each month, so, for example, in May 2025 the LIS will be May 2022 and the exact 3 year LIS

period will be maintained for each month thereafter, and so the LIS will be the same as it currently is on each 01st April, but it will stop the monthly growth of the LIS in year 4 up to 31 March of the following year.

Xoserve, the CDSP, has stated that there will be some changes to their systems and processes to accommodate the change. However, the view is that their systems and processes are aligned to the fact that the process is currently annual and that changing it to monthly should be able to be accommodated. In the old UK Link system, the lack of flexibility drove the annual LIS update, whereas in the new UK Link system the historical annual LIS update is driving the annual process that we believe can be amended without too much development.

2 Governance

Justification for Authority Direction

The modification is likely to have a material effect on:

- (bb) competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.
- be assessed by a Workgroup

3 Why Change?

The longer the LIS period is then the greater is the exposure of Shippers to the risks of large reconciliations and adjustments, especially relating to large metering errors, and it does not give Shippers an incentive to read meters and get their correct final gas allocation in a timely manner. A LIS reduction will lower the risk to gas Shippers of past years affecting the profitability and accounts of future years from unexpected reconciliations.

Currently, a number of Shippers work towards the annual line in the sand resulting in a large number of reconciliations impacting other Shippers in the last couple of months before the LIS. A rolling monthly LIS would prevent this as it would smooth out the date at which the start date of reconciliations became timed out rather than having a significant number hitting the LIS at the same time, which is the case with the annual rollover.

The other benefit of a 3-year (or 36-month period) is that once the annual process is ended and the LIS is moved to a monthly rolling process, then the 36-month period could be reduced in the future (possibly over time and in stages) to a lower period such as 30, 26 or 20 months. The industry would not be stuck to an annual cycle, as to lower the LIS under the current arrangements of a rolling annual process would need an annual reduction to a 2-to-3-year period which may be too much in one stage. The comparable LIS-type period in electricity has been 14 months for decades (planned to be reduced to 4 months soon after the implementation of the MHHS Programme) and the gas industry could work down to this type of timescale over time, but a further UNC modification or modifications would be required to do this.

4 Code Specific Matters

None N

5 Solution

The code cut-off date in the UNC will be changed from a 3 to 4-year period to a rolling 3-year period which rolls forward on a monthly basis. The solution will need to take account of the invoicing timetable, as the current LIS does, in that the current LIS allows invoicing for the period up to 31 March in any year to take place in the following month after the LIS has rolled forward on 01 April.

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

Consumer Impacts

A shorter LIS is likely to lower the risk premium from shippers and suppliers and so may reduce bills to consumers.

What is the current consumer experience and what would the new consumer experience be?

If this modification is implemented it is likely to lower consumer bills for all types of consumer.

| Impact of the change on Consumer Benefit Areas: | |
|---|-------------------|
| Area | Identified impact |
| Improved safety and reliability | None |

| | |
|---|-----------------|
| <p>Lower bills than would otherwise be the case</p> <p><i>Will this change lower consumers' bills by controlling, reducing, and optimising spend, for example on balancing and operating the system?</i></p> <p><i>This area would relate to changes that are likely to benefit end consumers. This could include any change where it has been demonstrated that it could lower bills for end consumers. It would also consider changes which introduce flexibility across the market to flow energy at the most efficient profile, lower operational costs. and make sure GB consumers can access the cheapest sources of energy. If possible, this section should include any quantifiable benefits.</i></p> <p><i>What costs or benefits will pass through to consumers?</i></p> <p>A shorter LIS is likely to lower the risk premium from shippers and suppliers on outstanding reconciliations and potential large metering errors and so may reduce bills to consumers.</p> | <p>Positive</p> |
| <p>Reduced environmental damage</p> <p><i>Will this Modification Proposal support:</i></p> <ul style="list-style-type: none"> <i>a reduction in Greenhouse Gas emissions?</i> <i>new providers and technologies?</i> <i>a move to hydrogen or lower greenhouse gases?</i> <i>the journey toward statutory net-zero targets?</i> <i>decarbonisation?</i> <p><i>This area would relate to changes which demonstrate innovative work to design solutions which ensure the system can operate in an environmentally sustainable way both now and in the future.</i></p> <p><i>Proposers must provide the impact (if any) of the Modification proposed on Greenhouse Gas Emissions, if it is likely to be material. The Proposer shall assess the quantifiable impact of such Modification in accordance with the Authority's Carbon Costs Guidance</i></p> <p>Insert text here</p> | <p>None</p> |
| <p>Improved quality of service</p> <p><i>This area would focus on demonstrating why and how the change can improve the quality of service for some or all end consumers. Improved service quality ultimately benefits the end consumer due to interactions in the value chains across the industry being more seamless, efficient, and effective.</i></p> <p>Insert text here</p> | <p>None</p> |
| <p>Benefits for society as a whole</p> <p><i>This area would relate to any other identified changes to society, such as jobs or the economy.</i></p> <p>Insert text here</p> | <p>None</p> |

Performance Assurance Considerations

As the change will impact the LIS for reconciliations, the PAC will need to monitor performance against the new monthly LIS dates on an ongoing basis and contact shippers accordingly, if the PAC deems it necessary.

Cross-Code Impacts

None identified. However, the IGT UNC will be checked to ensure there are no impacts on it.

EU Code Impacts

None.

Central Systems Impacts

This modification will impact the UK Link system as a change from an annual rollover to a monthly rollover of the LIS will be required within that system.

7 Relevant Objectives

Impact of the Modification on the Transporters’ Relevant Objectives:

| 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. | Positive |
| 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. | None |
| 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 |

Include Table below for Section Y (Charging Methodology) Modifications (delete this green text)

Impact of the Modification on the Transporters’ Relevant Charging Methodology Objectives:

| Relevant Objective | Identified impact |
|--------------------|-------------------|
|--------------------|-------------------|

| | |
|--|------|
| a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business; | None |
| aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers; | None |
| b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business; | None |
| c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and | None |
| d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets). | None |
| e) 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 |

8 Implementation

As this Modification requires CDSP system changes to facilitate a change in the LIS and associated processes, a DSC change proposal will need to be raised for this modification. The DSC Change Management Committee will approve the implementation date for the associated change proposal following input from the CDSP. Therefore, implementation will align with a CDSP system release.

9 Legal Text

Text Commentary

Insert text here.

Text

Insert text here.

10 Recommendations

Panel is asked to:

- Agree that Authority Direction should apply.
- Refer this proposal to a Workgroup for assessment.