

Modification Report
Amendment to Invoice Billing Period
Modification Reference Number 0117
Version 2.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because the proposal is both linked to:

- “a specific date related event, being the earliest date that an invoice can be issued to include a reconciliation of the significant South East Local Distribution Zone metering error, recently notified to the industry; and,
- a real likelihood of significant commercial impact upon GTs, shippers or consumers if the proposal is not granted urgency. The total impact of the error may amount to approximately £25 million, largely due to the period over which the error occurred.”

Procedures Followed:

The procedures agreed with Ofgem for this Proposal (including revisions) are:

Ofgem grant urgent status	02/10/06
Proposal issued for consultation	03/10/06
Transmission Workstream	05/10/06
Distribution Workstream/Billing Operational Forum	26/10/06
Revised modification proposal (version 2.0) circulated	31/10/06
Closeout for representations	09/11/06
UNC modification panel recommendation	16/11/06
Ofgem decision expected week commencing	20/11/06
Implementation date (subject to Ofgem’s decision) no later than	24/11/06

Ofgem’s original timetable identified the Final Modification Report being sent to the UNC Modification Panel on 09/11/06 but this aspect of the timetable could not be met when the final date for representations was extended to 09/11/06.

1. The Modification Proposal

The revised Proposal was as follows:

“This modification proposes to limit the period in respect of which a demand for payment can operate retrospectively to no more than twenty six (26) months from the date on which the relevant invoice is issued. For clarity we do not propose that this modification should impact on the invoice query processes detailed in Section S of the Transportation Principle Document or the processes for dealing with Surpressed Reconciliations. We are therefore proposing that once an invoice has been raised the invoice query process, as detailed in Section S, should be allowed to run its full course without impacting on the duration that the original invoice was raised for. EDF Energy also proposes that in instances when a meter read is surpressed by the Transporter, the notification of said surpression, will act as a marker, so that when the issue is resolved the invoice will be able to go back twenty six (26) months from the date the notice of surpression was received. For example if a User submitted a meter read on 26 October 2006, and received notification that the read had been surpressed on 28 October 2006,

but failed to resolve the issue until 28 October 2008, then when the invoice was finally issued it should be able to go back to the period 28 August 2004 if required.

Background to Proposal

On 24 August 2006, the industry was notified of a meter error that had occurred for a six year period between 13 July 1999 and 30 June 2005, in the South East area that had gone undetected despite the meter undergoing regular annual validations. The result of this error was that 2.4TWh of gas had not been metered, resulting in proposed invoices totalling £25.6m being raised on all the domestic shippers that are currently active in the SE LDZ. This will represent a significant cost to the shippers in that area, even though the majority of them were not active in this area for the entirety of this period, that they will only be able to recover through their tariffs. This will neither be cost reflective nor represent efficient practice because:

- Shippers will be attributed a proportion of this cost dependent on their current market share in the South East LDZ, even though the majority were not active in this area for most of the period covered by the reconciliation process.
- The cost of this reconciliation will be recovered from customers in general, as this charge represents an additional cost to shippers who have not necessarily been active in this local market over the period, and so have not billed customers for the consumption of this energy.
- The current ability for Transporters to raise an invoice that is not time limited clearly provides no incentive to ensure that they are operating the pipeline in an economic and efficient manner, and that their meters are reading accurately.

Amending the back billing period to no more than twenty six (26) months will overcome these discrepancies and align the invoice processes for Transporters with those currently employed within the supply community.”

The Proposer also issued the following statement note to clarify the Proposal:

“For clarity we believe that UNC Modification proposal 0117 should impact equally on all invoices that may be issued, both credits and debits, including any reconciliation invoices and any ad-hoc financial adjustments that may occur. We believe that this will provide equitable treatment to all UNC parties.

It has further been noted that the proposal, if implemented, may potentially allow shippers to abuse the query processes and reconciliation suppression processes to limit the scale of any debits that they may be liable for. For instance, a period of dispute will not decrease the two year period for which an invoice could be raised. This was not the intent of this proposal, and we would hope to ensure that the legal text was developed to overcome these issues. In particular we are proposing that a reconciliation suppression notice will act as a “marker” for an invoice, and that an invoice will not be issued for a period of greater than 2 years prior to this “marker”. We believe that this will maintain the incentive for Transporters and Users to ensure that their meters are accurate, whilst ensuring that Shippers do not abuse the current processes set down in the code. We would further expect the legal text to ensure that once an invoice has been issued; raising an invoice query will not change the time period of the invoice.”

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

1(a) the efficient and economical operation of the pipe-line system

The Proposer believed that implementation would better facilitate the achievement of this objective by “providing Transporters with an incentive to ensure that their meters are accurate, they will be able to identify the flows that are actually occurring on their system and so take balancing actions that are actually required, and not ones based on an erroneous view of the supply/demand fundamentals on their system. Furthermore, by encouraging meter accuracy this modification will ensure that costs are targeted at those who accrue them, rather than at those who carried no responsibility for their accrual.”

In its response, EDFE commented that, in the event of implementation, Transporters “*would be able to configure their system to ensure that they operated their compressors as efficiently as possible and transported gas to where it was required.*”

In response to the Proposer’s statements of incentivising meter accuracy, NGNTS pointed out that actions are taken “*based on notified forecast deliveries, offtakes and resultant forecasted pressure changes within the NTS, manifesting in the assessment of system linepack changes within the day. Such actions are triggered by relatively large changes in flows. The incremental changes in meter accuracy that may be generated by this Proposal, whilst in theory could be of benefit to this relevant objective, in practice would have an indiscernible effect.*”

NTSR pointed out that implementation might introduce the risk of “*less rigorous ongoing measurement assurance*” and this would “*lead to the need for the Shrinkage Manager to intervene more frequently and carry greater overhead on behalf of all Users in order to mitigate increased risk.*”

TGP did not believe this objective applied.

WWU disputed the Proposer’s statement on incentivising meter accuracy and pointed out that such accuracy “*is fundamental at all levels, whether it be an Offtake meter or a domestic supply meter. To limit the billing period to 26 months would in fact lead to less incentive for accuracy of meters, and meter reads, as the invoice query and suppressed reconciliation process could be misused in order for costs to be incorrectly allocated to other parties.*”

1(b) so far as is consistent with (a), the co-ordinated, efficient and economical operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporter.

The Proposer believed that implementation would better facilitate the achievement of this objective by “providing Transporters with an incentive to ensure their meters are accurate Transporters will be able to develop a more accurate view of their pipe-line systems and so take balancing actions and investment decisions based on this view rather than one based on their perceived flows. Going forward, this will ensure Gas Distribution Networks’ exit bookings and interruption capacity purchases reflect their actual requirements rather than misinformed perceptions.” This was reiterated in EDFE’s response.

GdF supported the above statement in respect of incentivising accuracy.

In justifying its belief that implementation would not better facilitate the achievement of this objective, NGNTS stated that the “*proposed introduction of a two year and two month limit to retrospective billing periods may conflict with prevailing UNC meter validation and meter data provision obligations for both DN Transporters and Users. Whilst we are not responsible for the validation of meter readings, we do have a licence obligation to ensure that all energy costs are targeted to appropriate parties. We*

believe that a two year and two month limit compromises our ability to appropriately allocate and target costs as these time limits are not conducive with the prevailing meter validation obligations and timescales.”

TGP did not believe this objective applied.

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

The Proposer pointed out that “not knowing accurately what the flows into or out of their system are, Transporters are unable to identify what the actual demand/supply balance on the system is.” It therefore concluded that implementation would better facilitate the achievement of this objective by “incentivising meter accuracy this modification will ensure that the licensees are able to undertake balancing actions when required, and ensure that security of supply is maintained through numerous market signals. Furthermore, Transporters will currently be taking investment decisions to meet their own security of supply requirements based on their views of demand on their system, which will be driven by the historical flows on their systems. If these flows are not accurate then they will not be taking the investment required to meet their objectives. Accurate meters should ensure that Transporters develop an accurate view of their system and that their security of supply conditions are met.” This was reiterated in EDFE’s response.

GdF also believed that implementation would incentivise accuracy at the NTS/Distribution Network boundary.

NGNTS believed that implementation would compromise its ability to efficiently discharge its licence obligations. *“The introduction of a two year and two months limit to invoicing of retrospective billing periods may curtail our ability to appropriately target costs and benefits across appropriate parties. Additionally we believe that limiting the ability to correctly apportion costs to the appropriate Users is contrary to the stated purpose of the Proposal.”*

TGP did not believe this objective applied.

1(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers and (ii) between relevant suppliers.....

The Proposer believed that implementation would better facilitate the achievement of this objective “by ensuring that costs are targeted at those who actually accrue them, and not those who are active in the market years after the event.” EDFE, in its response stated for reconciliations that *“span a significant period this would have the effect of targeting costs at those who were currently active, regardless of whether they had realised the benefit of supplying that gas or not, creating a barrier to entry.”* EDFE stated that implementation would clarify *“the position by expressly stating a twenty six month limit,”* and believed it was *“likely that invoices applied to Shippers will be more reflective of their actual holdings.”* EDFE concluded from this that implementation *“should help ensure that costs are targeted at those Shippers who have accrued them,”* and so better facilitate achievement of this objective.

GdF also supported implementation *“as having a defined cut-off period for invoicing error allows for a fairer allocation of costs between users. This is particularly true in respect of the smaller supply point market which is subject to RbD.”*

BGT had concerns that implementation would not better facilitate the achievement of this objective for the following reasons

“The proposed timescale that in effect limits the reconciliation period to 26 months is not appropriate, in that it will not always allow the completion of all the necessary activities required to protect the integrity of the settlement system. As a consequence, there is a significant risk that the accuracy and equitability of settlement will be compromised. Should this happen, the result would be incorrect allocation of costs and charges across parties, giving rise to cross subsidies....”

Implementation “could result in the creation of a perverse commercial incentive, rewarding shippers who chose to delay the submission of reads in to settlement, delaying the resolution of suppressed reconciliations. As above, any such actions will result in unfairly apportioned costs, typically at the expense of RbD shippers....”

In arguing that implementation would not better facilitate the achievement of this objective, Corona believed that implementation would be “likely to lead to discrimination against certain Users who are unable to progress queries within the constrained period. In addition and as a result of the inability of Users to rectify problems this would lead to inappropriate cost targeting and risk allocation.”

NGNTS considered that the “principle of introducing an efficient and economic limit to invoicing of retrospective billing periods” may better facilitate achievement of this objective, “as such a change may reduce User exposure to the uncertainty of financial risk associated with retrospective billing periods.” However, NGNTS did not “believe that, as proposed, a two year and two month limit would achieve this in an appropriate and non-discriminatory manner or a manner consistent with current meter read and validation obligations. We therefore believe that two years and two months does not provide sufficient time for the industry to maximise the efficient targeting of costs. We consider that as such the change proposed could be viewed as potentially discriminatory and therefore does not better facilitate effective competition between Users.” In support of its view, NGNTS referred to Ofgem’s decision letter on the Transco Network Code Modification Proposal 0642. This pointed out that “such reconciliations may result in a credit to users, rather than a debit... It would be unreasonable to deprive any party of monies they were due by introducing an inappropriate point of cessation.”

NTSR believed the Proposal to be potentially discriminatory. It believed that implementation would introduce “a significant risk that a sub group of the community will benefit to the detriment of the wider community.” It also believed that cost reflectivity would be “undermined by an arbitrary close-out period, particularly where the close-out period has not been considered in the context of the relevant prevailing meter assurance and maintenance regime.” It believed that the implementation of this Proposal would “introduce an arbitrary time limit and cap on the monies passing back to the community that has borne these costs and will protect the subset of Users within the LDZ that should have been targeted with the costs for the full duration of the meter error.”

SGN, in respect of setting a time limit, believed it was “essential that a balance is struck to ensure that charges can be appropriately adjusted in light of new information to ensure charges remain cost reflective and there is no unnecessary or inappropriate cross subsidy between Users.” It pointed out, however, that “where adjustments are complicated or span a considerable period of time, it could take a considerable amount of time to carry out investigations, gather and validate data. In the specific incident referred to in the proposal, the incident was identified in June 2005, notified to the industry in August 2006 and is still subject to industry discussion. It is conceivable that

by the time any invoice is raised, the actual period over which an adjustment could be claimed would be minimal or have timed out e.g. assuming an invoice was issued in relation to the above event in November 2006, an invoice could only be issued from September 2004 through to June 2005 (less than 1 year)."

SSE, in support of implementation, believed that *"by restricting the period under consideration to 26 months rather than the full duration of the error the recovery is more likely to reflect current market share and hence be more cost reflective."*

TGP expressed the belief that *"correction should be applied where there is clear and verifiable data available. In the specific case that prompted this modification this is indeed the case, and so the adjustment should be carried out. If a reconciliation deadline is imposed, then easily correctable errors within settlement will remain and inaccurate cost targeting will continue."* TGP therefore concluded that creating *"a set period limiting when reconciliations can be undertaken will result in some settlement errors being corrected with others being left unresolved. This will result in inappropriate cost-targeting and so will be detrimental to this relevant objective."*

WWU recognised that *"continuing to bill back to February 1998 needs to change but we see no justification for this period to be reduced to 26 months. Any transactions or activities that have not been completed within this 26 month period will not be billed correctly and will therefore compound the issue of misallocation across the community."*

1(e) so far as is consistent with sub-paragraphs (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;

The Proposer believed that implementation would better facilitate the achievement of this objective *"by ensuring that demand levels provided by National Grid are based on accurate meter reads, and not an inaccurate view of the flows within the system."* This was reiterated in EDFE's response, which pointed out that this benefit resulted from Users and Transporters being incentivised to ensure meter accuracy,

TGP did not believe this objective applied.

(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

The Proposer believed that implementation would better facilitate the achievement of this objective *"by ensuring adequate incentives are in place to ensure that the licensees meet the requirements laid down in the UNC Offtake Agreement Document Section D2."*

EDFE, in its response, also believed that an incentive on Users which complemented the requirements in Section M 3.5.2 of the UNC TPD would better facilitate the achievement of this objective. EDFE also referred in the same way to incentives on Users in respect of Suppressed Reconciliation.

NGNTS did not believe that this objective was relevant in considering implementation of this Proposal. NGNTS believed instead that this objective *"relates to implementing and administering the UNC principally as part of the Modification Rule provision."*

TGP did not believe this objective applied.

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

The Proposer believed that this Modification Proposal would improve security of supply, as outlined above in respect of relevant objective A11.1(e)

NGNTS did not share this view. Whilst in respect of LDZ meters, it recognised that *“theoretically, the provision of more accurate meter information may provide better information within-day, however in practise, the timescale materiality of such improvement in the current information provision would have no affect on our decision making in respect of SoS and System Balancing decisions. However such provisions would facilitate improvement in the longer term arrangements, such as reconciliation and invoicing processes.*

In practice, errors such as the recent SE LDZ meter error, which over its duration had a material impact, was erroneous by only ~ 2% of the meter's daily throughput. As this meter is one of in excess of 140 other NTS Offtake meters this meter error did not have a notable effect on the decision making process for Market Balancing Actions.”

NTSR did not share the view of the Proposer and stated that implementation would *“have no effect on the provision of the Shrinkage Manager Role as part of the operation of the system.”*

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

The Proposer suggested that implementation of this Proposal “would ensure that any actions required for the operation of the system would be based on actual flows within the system and so will have a positive impact.”

The Proposer recognised that “the Transporters may need to revise their operational practices to ensure that their meters are reading accurately. However, as these requirements are already covered by Section M, we do not believe that these costs should be significant, or attributed to the implementation of this proposal.”

NGNTS referred to the operation of billing systems and the concern that implementation would have implications on the operation of these. It did not believe that *“all such implications and risks have been fully rationalised or considered within this Proposal. Furthermore we do not believe that the operational changes required can be delivered within the proposed timescales.”*

NTSR stated that implementation would provide *“no benefit to the provision of the Shrinkage Manager Role as part of the operation of the NTS”*. It stated that the processes would *“continue to be assessed around the change in linepack to determine the requisite level of NTS Shrinkage in order to effectively procure gas and thus help to maintain a Total System balance.”*

b) development and capital cost and operating cost implications:

NGTS believed that, as a consequence of implementation, *“IS systems development costs may be high.”*

NTSR expected *“costs to be incurred to develop and implement changes to revenue critical systems.”*

TGP believed that the Transporters *“will be required to develop a series of protocols to handle settlement errors.”*

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

The Proposer suggested that implementation of this Proposal *“would also facilitate achievement of UNC Offtake Agreement Document Section D2”* and concluded that it would *“not seem appropriate for any unidentified costs to be recovered.”*

NGNTS did not share this view and considered instead that *“the parties that own the assets to which this statement relates would need to undertake much greater detailed cost/benefit and risk analysis, in respect of any consequences of implementing the Proposal, before such a statement could be made with confidence.”*

TGP did not *“anticipate any costs requiring recovery outside of allowed revenue.”*

d) analysis of the consequences (if any) this proposal would have on price regulation:

The Proposer suggested that by *“limiting the period which invoices cover, this proposal will ensure that Transporters do not collect revenues that span more than two price control periods. This will ensure that any incentives/revenues set within these price controls are maintained and do not have to be re-opened and investigated significantly after the events.”*

NGNTS pointed out that *“any reduction in the quantities recoverable through the LDZ reconciliation process may, in turn, reduce the quantities adjusted through the SO Commodity Charge.”*

TGP stated that if a *“significant under or over-recovery occurs due to a settlement error which is not correctable, then this may have an impact on future price controls.”*

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The Proposer recognised *“that some contractual risk may be transferred to Transporters as they would be unable to issue invoices going back for longer than two years. However in relation to metering errors and raising timely invoices it is the Transporters who are best placed to manage these risks, as they are responsible for metering and raising invoices.”*

BGT suggested that restricting the *“ability of Transporters to recover revenues within the current price control could lead to repeated requests for Income Adjusting Events from Transporters. Not only are such events costly and time consuming to administer but, should the propensity for such requests increase, this would further reduce rather than increase commercial and regulatory certainty.”*

NGNTS stated its belief in respect of energy, that the level of contractual risk would remain largely unchanged by implementation. *“However the proposed change may undermine the principles behind the introduction of the current NTS Shrinkage Incentive and therefore we believe that the majority of the risk would currently be borne by the industry through the SO Commodity Charge.”*

RWE commented on the prospective Farningham adjustment as *“a direct result of a basic and uncorrected error by Transporters.”* It expressed the belief that it is only fair

“the cost should be shared between Shippers and Transporters rather than just on Shippers.” It concluded that implementation would “act as an incentive on Transporters to ensure the Offtake volumes are correct,”

SP, whilst not supporting implementation, did express support for the intended principle of limiting *“the retrospective invoicing period allowed to Gas Transporters”*.

TGP stated that having *“a two year cut-off date will increase contractual risk for Transporters who will not be able to correct settlements errors which are identified more than two years after the dates affected.”*

WWU referred to the *“concern that the cost of reconciliation will be recovered from customers in general.”* It believed this could be seen *“as a circular argument; the 2.4TWh of gas has been consumed by customers, the relevant Transporters have not received the income due, the gas transportation charges passed on to customers are directly impacted by the overall income of Transporters and to restrict the ability to recover revenue within the price control mechanism is wholly inappropriate.”*

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

EDFE, in its response, commented that *“in many cases the amount of system change will be relatively minimal, as it is the invoicing period which is being changed, rather than the underlying systems and processes.”*

NGUKD believed that the Proposal posed *“significant system development/implementation issues. The complexities that would be associated with a daily/monthly/six-monthly or annual change of the cut-off date for invoicing are significant and need further investigation.”*

NGNTS were *“concerned that if directed to implement this Proposal, within the prescribed timescales, there is a risk that the IS systems and operational billing process changes, required to support such a change, could not be delivered without compromising the integrity of the UNC Billing systems. We believe that such risks outweigh the benefits perceived by the proposer.”*

NTSR stated that *“the impact across the whole of the energy balancing, invoicing, query and adjustment processes together with the capital cost of amending the systems that support the revenue streams for the whole market would be significant.”*

TGP believed implementation would introduce a requirement *“to adjust UK Link invoicing systems to suppress any credits or debits that are created by any secondary reconciliations, resulting from the primary reconciliation, that pass the two year deadline.”*

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

The Proposer believed that implementation *“would result in the Transfer of some contractual risk from Users to Transporters, as under the current regime Users have an agreement not to issue a retrospective invoice that goes back more than two years, but are open to the risk that Transporters can raise an invoice for any period that they wish. Users, however, have no way of mitigating these risks as responsibility for metering and raising accurate invoices is held by the Transporters. This modification would*

overcome this discrepancy by transferring these risks to those that are best placed to manage them.”

BGT did not believe that the Proposal was sufficiently clear on how *“the invoicing issue and validation process would work. We believe that, as worded, the proposal would require a number of different ‘back stop’ reconciliation dates for different invoices, any number of which could be live at any one time. This could make the invoice validation processes unwieldy if not impossible.”*

Corona commented specifically on the potential application of this Proposal to Supply Point meter errors and pointed out that *“in accordance with the rules, such supply points are only required to be read very two years (must reads), although of course in practice they are read more frequently e.g. six monthly. In the event that there is a problem with a meter it is very likely, given the infrequency of such reads, that the identification/rectification of the problem will not be achievable within the timescale and the offtake would remain unreconciled. Given the nature of these sites it is the case that identification of a problem may not occur at the time of the first read cycle and subsequent corrective activities are often frustrated by poor data records and inability to access or locate the meter. This could lead to an outcome where a large number of sites are not reconciled.”* Corona also pointed out that the Proposal neglected to *“outline the mechanisms for the treatment of supply points which have not been reconciled prior to the imposition of the two year embargo”*. In this context Corona highlighted long standing uncertainty in respect of asset data affecting twenty thousand meters where reconciliation would be needed. Corona concluded by arguing that that in the event of implementation the levels of uncontrollable risks to Users would be *“unsustainable and conflict with the principle aims of the Modification Proposal.”*

NGUKD, listed the current process involved prior to invoicing including meter reading, reconciliation, query resolution and adjustments and associated impact on RbD, and concluded that an allowance of greater than 26 months was required. It therefore concluded that *“this proposal if implemented could be significantly detrimental to certain market sectors.”*

NGNTS believed that implementation *“may impact the administrative, operational costs and level of contractual risk on Users. Implementing a two year and two month limit to the invoicing of retrospective billing periods may alter User behaviour in respect of the requirement to process and provide meter information within the limited window. We believe that this change may reduce the ability of NG NTS to appropriately target costs, and this might be to the detriment of Users and Transporters that process and maintain accurate meter information in a timely manner.”*

NTSR pointed-out that *“Shrinkage Procurement is funded primarily by the Users as a whole via the current market mechanisms with any under or over recovery being passed back through SO commodity rates via the NTS Shrinkage Incentive.”* It further pointed out that during the period that an offtake meter is in error *“the NTS and DN Transporter is prevented from realising the transportation revenue associated with un-registered gas flowing into the relevant LDZ. The Users that are active in the LDZ during the period of error will be metering the gas that was un-registered through the offtake out to their End Users and charging accordingly.”* NTSR stated that it *“is only possible to target the costs to the Users that have benefited from supplying gas to their End Consumers... by ensuring errors can be allowed to reconcile over the duration of the error period taking into account prevalent legislation.”* It was therefore concerned that applying *“a two year two month limit on the ability to request payment discriminates*

against the Users that have borne the costs but have not benefited from supplying gas without paying the related transportation costs.” It concluded that such a consequence of implementation would conflict with Ofgem’s decision letter on Transco Network Code Proposal 0642 and would be “in essence discriminatory.” On the particular incident within South Eastern LDZ, NTSR estimated that “twenty five of the twenty eight Users anticipated to share the impact of this reconciliation did indeed have varying degrees of the domestic sector in the SE LDZ during the meter error period.”

It was TGP’s understanding “that some reconciliations may occur for dates more than two years previous owing to correction of suppressed meter readings. It will also not preclude the possibility of large scale reconciliations being incurred for periods which are less than two calendar years after the invoice date. There will therefore be only no significant reduction of contractual risk for Shippers.”

In its response, EDFE commented that, in the event of implementation, “Users responsible for meters would be provided with an incentive to ensure that their meters are accurate, and read promptly.” EDFE also commented that, other than in one respect (ie 24 vs 26 month limitation), implementation would align the UNC with the Supplier’s billing code.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

EDFE believed that implementations would ensure that costs resulting from a meter correction outside the 26 month period were “not passed on to suppliers, and so encourage competition amongst suppliers.”

TGP believed that Suppliers might be required “to pay inaccurate Transportation costs as previous settlement errors will not be rectified.”

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

NGNTS referred to the statement that implementation would, “...align the invoice processes for Transportation with those currently employed within the supply community”. It presumed that this assertion had been made “on the basis of the Ofgem decision relating to the ‘super-complaint’ on billing process processes made by the Gas and Electricity Consumer Council (Energywatch).” NGNTS referred to the statement in the Ofgem decision letter that “Energy Suppliers should, by July 2006, stop seeking payment from customers for any energy supplied where the supplier is at fault for not billing the customer for two years. From July 2007 energy suppliers should stop seeking payment for unbilled energy where a supplier has failed to bill for over 12 months and is at fault for this failure.”

NGNTS believed that Ofgem's decision regarding the ‘super-complaint’ “related to suppliers that have not billed the customer, at all, for two years. We observed that this is not the case with UNC invoices, which have been invoiced within the prescribed timescales. However the processing of meter reconciliation is reliant upon meter information provision, which is the responsibility of Users and Transporters and might not be processed within the two year window. In order for the Proposal to suggest implementation of such a timescale we believe it must also consider and include consistent changes to timescales and obligations in relation to meter information provision and ‘close out’.”

TGP believe that in the event of implementation Transporters would be “*obliged to determine what portion (if any) of a settlement error falls within the reconciliation window. This will add to the administrative burden of the Transporter’s agent.*”

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

The Proposer identified the following advantages:

- “Incentivises improved meter accuracy for flows on to and off of the total system because it exposes Transporters to financial risks of foregone revenues arising from erroneous meter readings which they are best placed to manage.
- Improved security of supply as balancing actions and investment decisions are based on accurate data flows.
- Costs will be more accurately targeted at those who accrue them because the AQ proportions will be more reflective of actual market share in the previous two years
- Transfers contractual risks to those who are best placed to manage them.”

Whilst not in support, Corona acknowledged that implementation would better incentivise Transporters to maintain meter accuracy.

TGP identified the following advantages:

- “*Reduced potential size of any one-off reconciliation*
- *Reduces uncertainty for all parties regarding long term accruals and provisions*”

Disadvantages

The Proposer identified the following disadvantage:

- There is a risk that if meters are inaccurate for periods of time longer than two years costs will not be targeted at those who accrue them. However, this would result from a failing by the Transporters and so it could be argued that they should be liable for these costs.

Corona identified the following further disadvantages:

- “*Unfairly impacts Users with non-monthly read sites*
- *Further deterioration in cost reflectivity due to inability to reconcile a number of meter points*
- *Place unmanageable risks on Users denied the opportunity to justifiably correct inaccurate data and subsequent invoice amounts*
- *Could lead to the continuation of inaccuracies as Users are denied the opportunity and/or incentive to correct flawed data*
- *A disproportionate and potentially costly attempt to rectify a specific problem (at Farningham).”*

NGNTS identified the following disadvantages:

- “*May curtail the ability of NG NTS to maximise the efficient and economic targeting of costs.*

- *Undermines the principles of the current NTS Shrinkage Incentive*
- *Potentially discriminatory against some Users that are unable to recover costs which they would have previously borne through the SO Commodity charge.*
- *Costs and risks associated with the changes necessary to implement this change in the timescales proposed outweigh the benefits which may be achieved by some Users.”*

NTSR identified the following disadvantages:

- *“Under this Proposal, where meter errors are identified that are of a duration greater than two years and two months, costs will not be accurately apportioned to parties that are likely to have accrued them. The Users as a whole will carry the majority of the exposure. The NTS Transporter will share this exposure in the ratio of 20% of the risk or 25% of the reward as set out in the framework of the NTS Shrinkage Incentive.*
- *This Proposal has potential to enable Users to delay the submission of meter reads within the NDM Large Supply Point suppressed reconciliation process to gain a commercial advantage.*
- *This Proposal appears to assume that reconciliations are only in one direction however, meter errors result in under and over registrations and this proposal will also impede the ability to credit those Users in an impacted network when over registrations occur at an offtake meter.*
- *The reconciliation that triggered this proposal has demonstrated that following identification of a complex metering issue, it can take a significant amount of resource, time and effort to arrive at a robust view as to the magnitude and materiality of the error. Once this is linked to prevailing industry-agreed guidelines the timeline from point of identification to reconciliation can be a protracted process. There is a requirement for these processes to ensure that actions to correct for such substantial errors are made with the appropriate control and due diligence. The implementation of this proposal may make it inefficient for transporters to drive to apportion costs appropriately for very large errors which contrary to the proposals intention exposes the Users as a whole to the majority of the risk through the NTS Shrinkage incentive mechanism where the Users carry 80% of the risk and 75% of the reward up to a cap and collar, over which carry the whole exposure.”*

TGP identified the following disadvantages:

- *“Settlement errors will not be corrected beyond two years.*
- *New and current market Participants may be required to pay increased Transportations Charges as previous cost recovery errors are not rectified.*
- *Creates uncertainty of which settlement errors can be corrected.”*

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following parties:

Organisation	Abbreviation	Position
British Gas Trading Limited	BGT	Not in Support
Corona Energy	Corona	Not in Support
EDF Energy plc	EDFE	Support
Gaz de France ESS (UK) Ltd	GdF	Support
National Grid (UK Distribution)	NG UKD	Not in Support
National Grid NTS	NG NTS	Not in Support
Northern Gas Networks Limited	NGN	Not in Support
NTS Shrinkage Manager (part of National Grid plc)	NTSR	Not in Support
RWE Group	RWE	Comments
Scotia Gas Networks plc	SGN	Not in Support
Scottish and Southern Energy plc	SSE	Qualified Support
Scottish Power plc	SP	Not in Support
Total Gas & Power Limited	TGP	Not in Support
Wales & West Utilities	WWU	Not in Support

Thus two respondents were in support of the Proposal, one expressed qualified support, one provided comments and ten were not in support in the Proposal.

Comments, not otherwise summarised, were received on the following aspects of this Proposal.

Consequential Aspects

EDFE, in its response, stated the principle that *implementations “should only impact on the period that invoices can be raised for, and not the processes that support these invoices.”* Thus correction of meter inaccuracies would be impacted but invoices affected by Suppressed Reconciliation would be subject to amendment back to 26 months prior to the suppression date.

NGUKD pointed out under the current read obligation (TPD M3.6) relating to Annual Read Meters, the *“trigger for the Transporter to initiate the process of obtaining a read for these meters which remain unread is two years and ten days.”* UKD believed *“based on evidence of the current process that there would often be insufficient time to complete the read (which often involves resolving access problems), the reconciliation, the consequent feed through to RbD and any adjustments that may be required. Despite the current read requirements UKD is aware that a number of meters would remain unreconciled after 26 months.”*

NGUKD commented that currently *“where a charge is generated which fails a tolerance check it will be ‘suppressed’ and not added to an invoice. It then becomes the Users (or in some instances the Transporter’s) obligation to verify the charge or to ensure that the base data is corrected before it can be re-calculated and added to an invoice. Any limitation on invoicing may require the current User Reconciliation Suppression Guidelines and User payments (TPD E8.3), to be reconsidered. Whilst the Proposer has clarified that generation of the suppressed item acts as a ‘marker’ it is not clear whether, following the release of the read from suppression or an amendment to the read as a result of the query, whether or not the Transporter would be allowed to process any consequential adjustment required to the Small Supply Point (SSP) market.”* NGUKD also highlighted that *“although the introduction of a marker does place the emphasis on the Transporter to generate the invoice in a timely manner, in the*

majority of cases the Transporter is not responsible for the information which allows the invoice to be generated.”

Whilst acknowledging the Proposer’s clarification in respect of the impact on the current query process, NGUKD believed that there was *“insufficient detail within the Proposal to explain what impact any adjustments, which may be required as a result of a successful query, would have on the SSP market.”*

RWE also referred to the invoice query process and *“welcomed the clarification that the proposals should not impact”* this process. In respect of suppressions, RWE pointed out that creating *“a time limitation might encourage selective non resolution of Users Suppressed Reconciliations by allowing them to ‘time out’ to the detriment of the RbD community.”*

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14. Programme for works required as a consequence of implementing the Modification Proposal

NTSR stated that *“implementation would result in a large programme of work to develop and modify multiple areas of the Uniform Network Code and would result in a large change management programme to amend revenue critical systems supporting the whole industry.”*

TGP commented that a *“detailed series of system criteria will need to be devised, to determine the exact length of the back billing period permitted and when reconciliations and query period needs to be determined. It seems therefore that the programme of work required to implement the modification will be significant.”*

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

The Proposer recognised *“that in order to accommodate some of the system developments associated with this proposal, a phased implementation approach may be a more acceptable solution”*. EDFE, in its response, reiterated the suggestion of a phased approach but were unconvinced of the concerns expressed by certain Transporters and xoserve.

NTSR also identified that the Proposal could not be implemented within the proposed timetable.

TGP commented that considering *“the system changes required in implement revised criteria for the handling of reconciliation invoices, an implementation date of the 24 November does not seem achievable.”*

WWU did not believe *“the necessary changes could be made in the required timescales. The suggested approach of phased implementation would not be necessary if the proposal only considered dealing with the urgent issue and did not look to fundamentally change billing process and procedures.”*

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No such implications have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 16 November 2006, of the 8 Voting Members present, capable of casting 10 votes, 2 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel did not recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal not to modify the Code and the Transporter now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT SECTION S - INVOICING AND PAYMENT

Amend 2.5.1 to read as follows:

2.5.1 Subject to paragraph 2.5.4, an Adjustment Invoice, Interest Invoice or Ad-hoc Invoice may contain Invoice Amounts (or Invoice Credits in respect of Invoice Amounts) accruing (before such invoice is submitted):

(a) in the calendar month in which the Invoice Document is submitted; and/or

(b) in more than one calendar month.

Insert into Section S2.5 the following additional paragraphs.

2.5.4 Without prejudice to paragraph 1.1.2 and subject to paragraphs 2.5.5 and 2.5.6, no amount may be included as an Invoice Amount or an Invoice Credit in an Invoice Document, if that amount is calculated in respect of a period commencing on a date more than 26 months before the date on which the Invoice Document is submitted or would be submitted but for the provisions of this paragraph.

2.5.5 Without prejudice to paragraph 1.8, the provisions of paragraph 2.5.4 shall not apply to an Invoice Document which is submitted pursuant to paragraphs 4.4.1 or 4.4.2, following the resolution of an Invoice Query.

2.5.6 In respect of a Reconciliation Invoice submitted following the Suppression of a Reconciliation Value pursuant to Section E8.1, the provisions of paragraph 2.5.4 shall be construed as applying to the period commencing on a date not more than 26 months before the date of the Suppression and not the date on which the Reconciliation Invoice is submitted.

2.5.7 The provisions of paragraph 2.5.4 are without prejudice to paragraph 1.8, save that any period agreed between the Transporter and the User pursuant to paragraph 1.8.3 may not result in an amount being included in an Invoice Document as an Invoice Amount or an Invoice Credit, if such amount is calculated in respect of a period commencing on a date more than 26 months before the date on which the Invoice Document is submitted or would be submitted but for the provisions of paragraph 2.5.4.

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :