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UNC Modification Proposal 0117
“Amendment to Invoice Billing Period”

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposal.

General

National Grid NTS (NG NTS) supports the principle of introducing an efficient and economic limit to invoicing for retrospective billing periods, however we believe that such a change to the UNC billing regime would affect numerous existing processes and systems and entails much greater implications than those currently identified by the proposer. Additionally we are concerned that the implementation of this Proposal within the proposed timescales is, realistically, undeliverable and as a result carries greater risk than the perceived benefits which may be achieved for some Users.

We therefore are unable to support implementation of this Proposal. We believe that the introduction of any appropriate limits relating to the invoicing of retrospective billing periods within the UNC Billing regime would benefit from detailed industry wide discussion and development lead by those parties most affected by changes in this area. Any such developments should consider an appropriate and achievable implementation plan, accounting for any necessary system, operational, asset and UNC changes. Additionally any change should consider all the parties and assets that contribute to the invoicing processes.

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

In respect of SSC A11.1 (a) - NG NTS do not believe that this Proposal would provide improvement in the economic and efficient operation of the system. Market Balancing 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. .

In respect of SSC A11.1 (b) - 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. We therefore do not believe that, as drafted, this Proposal demonstrates an improvement to the co-ordinated, economic and efficient operation of the combined pipe-line systems.

In respect of SSC A11.1 (C) – We believe that this Proposal compromises our ability to efficiently discharge this licence obligation. 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.

In respect of SSC A11.1 (d) – We consider that the principle of introducing an efficient and economic limit to invoicing of retrospective billing periods may better facilitate effective competition between relevant Shippers, Suppliers and DN operators, as such a change may reduce User exposure to the uncertainty of financial risk associated with retrospective billing periods. However we do 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.

We note that in its decision letter to Network Code Modification Proposal 642 – ‘Withholding of energy charge where LDZ reconciliation has been disputed’ – Ofgem stated that, *“Whilst significant and unforeseen energy reconciliations can reduce certainty for both the GT and Users, it is correct that energy balancing revenues be adjusted in light of better information about the actual off-take of gas. Ofgem also agrees with Transco, that such reconciliations may result in a credit to users, rather than a debit as in this case. It would be unreasonable to deprive any party of monies they were due by introducing an inappropriate point of cessation.”* We believe that our concerns outlined in this representation remain consistent with this statement.

In respect of A11.1 (f) – Contrary to the proposer’s view, we do not believe that this change facilitates an improvement in the efficient implementation and administration of the UNC. We do not believe that this objective is relevant to this Proposal. This Licence condition relates to implementing and administering the UNC principally as part of the Modification Rule provision. We do not believe that *‘ensuring adequate incentives are in place to ensure the licensees meet the requirements laid down in the UNC Offtake Agreement Document Section D2’* is relevant to this condition of the Licence.

The implications of implementing the Modification Proposal on Security of Supply, operation of the Total System and industry fragmentation

NG NTS do not believe that this Proposal, if implemented, would have a beneficial effect on our licence obligations in respect of Security of Supply (SoS), as suggested by the proposer.

The proposer stated that if implemented, this change would incentivise improved meter read accuracy and thus consequently improve Security of Supply and Balancing decisions taken within-day. In respect of LDZ meters, we recognise 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.

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

a) implications for operation of the System:

We are concerned that, if implemented, this Proposal will have implications on the operation of UNC Billing systems. We do 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.

b) development and capital cost and operating cost implications:

We believe that IS systems development costs may be high. We would welcome views from Xoserve regarding indicative costs required to implement such a change, as well as indicative timescales through which appropriate changes could be achieved.

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

We do not believe that this Proposal, “Facilitates achievement of the UNC Offtake Agreement Document Section D2” as suggested by the proposer. We consider 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.

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

We believe that any reduction in the quantities recoverable through the LDZ reconciliation process may, in turn, reduce the quantities adjusted through the SO Commodity Charge.

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 stated that implementation of this Proposal, ‘*transfers contractual risks to those who are best placed to manage them*’. In respect of energy, we believe that the level of contractual risk remains largely unchanged. 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.

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

We are 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 and would welcome views from Xoserve in respect of system implications and delivery timescales.

We note that as part of its varied Proposal, the proposer recognises that system developments may be required and suggests the possibility of a 'phased implementation approach'. We feel obliged to question what is meant by a 'phased' approach? In the absence of further opportunity to discuss and develop this new aspect of the Proposal i.e. details regarding what is proposed in respect of implementation through a phased approach, the timing of phasing, the appropriate limits, would phasing be through transitional arrangements etc we are unable to assess whether such an approach is warranted or indeed feasible. We believe that in respect to this issue we are therefore unable to provide a response to this suggestion. We believe that should any phasing be required then further development and consultation on this matter would be required. We would support such further consideration and development of this Proposal.

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

We believe that if implemented this Proposal 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.

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

The proposer states that this Proposal would, "...align the invoice processes for Transportation with those currently employed within the supply community". This assertion has presumably 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). As part of its decision letter Ofgem indicated (paragraph 7.9) 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.*"

NG NTS note that as part of the proposer's 'Request to Vary' they have increased the proposed limit from the original 2 years to 2 years and 2 months. We believe that Ofgem's decision regarding the 'super-complaint' was that it 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”.

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

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.

Summary of the Representations

- **Nature of the Proposal** - We note that the Proposal applies to all UNC invoices (a point which was clarified at the Transmission Workstream 5th October 2007; and as part of the EdF clarificatory letter and; the Varied Urgent Proposal), however most of the arguments and issues highlighted in order to support the Proposal are based specifically on the LDZ reconciliation invoice and in particular, the recent meter error in the SE LDZ. We believe that as such the impact that this change may have on the entire invoicing system has not been fully considered and therefore we consider that the proposal would benefit from further industry discussion and development prior to implementation.
- **Shippers affected by SE LDZ reconciliation**
The Proposer contends that the majority of domestic Shippers in the SE LDZ affected by LDZ Meter Error were, “...not active in this area for most of the period covered by the reconciliation process”. Whilst not relevant to this Proposal, NG NTS observes that of the 28 Shippers affected by this meter error, 25 of those did have varying degrees of responsibility for the NDM portfolios within the SE LDZ, during the entire period covered by the reconciliation period.

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

No such implications have been identified.

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

No such implications have been identified.

Text

NG NTS notes that this Proposal seeks to introduce limits to the invoicing of retrospective billing periods, however, as drafted, we believe that the Proposal is incomplete and does not address some of the fundamental areas which should be detailed in order that legal text could be robustly drafted. We believe that the proposer's clarificatory letter, issued on the 9th October 2006, illustrates our concerns in that it appears to be proposing changes to the Proposal whilst it is in the consultation period. We note that subsequently the 'Request to Vary', issued on the 27 October 2006, further highlights our concern that this Proposal remains under-developed and would therefore benefit from further discussion.

Please let me know if you, or the SME assigned to this Proposal, require any further information to enable preparation of the Final Modification Report.

Yours sincerely

Ritchard Hewitt