

TOTAL GAS & POWER LIMITED

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Dear Julian,

Modification Proposals 0117 "Amendment to Invoice Billing Period"

Total Gas & Power Limited does not support the implementation of Modification Proposal 0117.

Our comments are as follows:

It is our understanding that Modification 0117 was raised to limit a specific reconciliation, (the reconciliation of the Farningham Offtake error during the period 1999 -2005) to no more than two years prior the raising of the invoice. Though these modifications will apply to all reconciliation invoices, this specific instance is a useful example in demonstrating the effects of this change.

TGP does harbor some concerns over the handling of the reconciliation process in the Farningham case, in particular the time taken between xoserve identifying the issue and the time taken to notify Shippers of the magnitude of the error. We also feel that there should be further investigation into why such an error was not detected for several years, despite repeated visual inspections of the equipment.

These concerns notwithstanding our view is that this particular reconciliation is correct. Xoserve has commissioned expert analysis to determine the root cause, duration and the magnitude of the error. We have confidence that this analysis is robust and so would not expect any expert determination (allowed under the provisions of Modification 0643) to alter the reconciliation amount or duration.

More generally with regard to the appropriateness of reconciliations covering a significant period of time, it is our 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.

Our comments above notwithstanding, we do agree with the proposer's view that the Transporter should not benefit from correcting an error that it did not detect for several years. A more appropriate limit than a rolling (daily or otherwise) 2 year adjustment period would therefore be the commencement date of the current price control. We note that this is the intent of Modification Proposal 0122, which we support.



In order to prevent such issues occurring in the future, it would also seem appropriate that the handling of such errors should be modified. In particular xoserve should be required to highlight any possible errors to the Industry, via the Billing Ops Forum, as soon as a material error is reported, not after the analysis is undertaken. It seems unreasonable for xoserve to spend approximately 12 months determining the exact magnitude of the error, and then expect Shippers to settle any invoice within several weeks of notification.

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

Gas Transporter Licence Standard Special Condition A11.1

- (a) ***the efficient and economic operation of the pipe-line system to which this licence relates;***

Does not apply to this objective.

- (b) ***so far as is consistent with sub-paragraph (a), the coordinated, 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 transporters;***

Does not apply to this objective.

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

Does not apply to this objective.

- (d) ***so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:(i) between relevant shippers;(ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

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.

- (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 (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and***

Does not apply to this objective

- (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.***

Does not apply to this objective.

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

No implications identified



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

a) implications for operation of the System:

No implications identified for Transporter Networks.

b) development and capital cost and operating cost implications:

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:

Do not anticipate any costs requiring recovery outside of allowed revenue

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

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.

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

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.

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

There will be 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.

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

It is our 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.

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

Suppliers may be required to pay inaccurate Transportation costs as previous settlement



errors will not be rectified.

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

As a result of this modification being implemented, Transporters will be obliged to determine what portion (if any) of a settlement error falls with the reconciliation window. This will add to the administrative burden of the Transporter's agent.

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

We have identified the following advantages:

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

We have 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.

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

Not required for this purpose

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

Not required for this purpose

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

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.

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



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.

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

No implications identified

Further Comments

None

Should you wish to discuss our response further, please feel free to contact me.

Yours faithfully

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