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Modification Proposals 0122: 'Restriction of invoice billing period to Price Control'

Dear Julian,

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

National Grid (Distribution) has the following comments to make with respect to certain sections of the Final Modification Report that will be submitted to the Authority for its consideration:

The Proposal

National Grid (UK Distribution) (UKD) does not support the implementation of this Modification Proposal as we do not believe is appropriate to make an urgent request to amend a contract, solely to limit the liability of a particular party or parties. Furthermore, we do not believe that an agreed UNC process should be varied mid-process, or charges annulled, by the retrospective application of new rules. UKD believes that prevailing rules should be used to resolve the issue to prevent any undue skewing of counter-party risk. In this case, to pre-empt the outcome of the agreed industry LDZ reconciliation process (0643), with respect to an ongoing significant NTS / LSZ Offtake metering error would not be appropriate.

At the Distribution Workstream on 26th October 2006, a number of the potential issues posed by the introduction of proposals in this vein, were discussed and attendees appeared to be in agreement that it would be desirable to form a review group to investigate a workable solution to the issue of a revised "close out date". UKD notes that the Proposer has now raised such a review proposal and we feel that this would be an appropriate forum in which to develop an enduring solution. The Proposer recognises that a more sophisticated closure mechanism may result from a review and UKD believes that it is more desirable to work towards this target and to make a full assessment of the risks associated with such an approach, rather than to implement a solution that it is already recognized would give rise to consequential billing issues. We also believe it is better to consider policy without the risk that participants' views are influenced unduly by the implications of particular reconciliation.

Relevant Objectives

UKD does not believe that it would better facilitate the Relevant Objectives set out in the Gas Transporters Licence. Whilst UKD agrees with the Proposer that it is desirable to work towards an agreed invoicing close out date it believes that the appropriate way to do this is to agree in advance what the optimum period for close out is and to agree how this will be amended e.g. a date to be changed annually. This approach would clearly demonstrate facilitation of the relevant objectives particularly A11.1(f), "the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code".

Operation of the System

UKD does not believe that this proposal, along with any other proposals which aim to introduce a time limit on invoicing, have any impact on security of supply and operation of the Total System. The impact of proposals of this nature is restricted to invoicing and the allocation of costs after the day. UKD can confirm that in relation to the NTS/DN offtake meters (the example of Farningham is quoted in this Proposal) an error on one of these meters will not impact the physical operation of the distribution system and, consequentially, implementation would not impact security of supply. Operation of the system relies on real-time telemetry information relating to pressures, flows and gas quality is available for each distribution network and monitored 24/7.

Advantages

Implementation would provide a limit to the time-period which invoices can cover, thereby providing certainty that accounting periods are closed out and removes the need to speculatively accrue.

Disadvantages

The proposal advocates a two stage implementation to achieve an enduring solution; there is no certainty the second stage will be agreed.

Depending on the implementation date, implementation could prevent the conclusion of an industry agreed process in relation to an on-going LDZ reconciliation, as well as leading to billing issues in relating to the application of other current UNC invoicing processes, such as primary reconciliation, User suppressed reconciliation, query resolution and adjustments.

Implementation

As a consequence of the adoption of urgent procedures, we do not believe that the implications of implementation on UK-Link systems have been fully considered and investigated. We believe implementation could only proceed once the system implications are fully analyzed and a solution specified.

Concerns

- This proposal can only be considered in terms of principle; further work would need to be undertaken to understand the consequences of implementation on all other billing processes.
- Implementation costs and an implementation program have not been provided; we are particularly concerned about adopting the proposed two stage solution.
- We believe implementation would establish inappropriate contractual precedents by allowing the introduction of rules which are effectively retrospective in their application.
- We have not been able to view legal text; therefore at this stage we are unable to make any comments.

Summary

UKD has already stated it believes there are some merits in establishing a new "close-out date". However, the correct way to resolve this complex issue, and the associated interaction of shipper and transporter risk, is by through complete analysis of the UNC invoicing activity. Therefore, we are unable to support this proposal but welcome and endorse the review advocated by Modification Proposal 0126.

Yours sincerely

Phil Lawton
Distribution Regulation Manager