

CODE REVIEW PROPOSAL No. 0126
"Restriction of Invoice Billing Period"
Version 1.0

Date: 15 November 2006

Urgency: Review

It is proposed to establish a Review Group to undertake the task as described in the draft Terms of Reference (to be agreed).

Nature and Purpose of Proposal

Background

Within the last four years, there have been a number of very large adjustments applied through LDZ reconciliation. In the main these have been related to situations where metering equipment has incorrectly recorded the volumes of gas that have been off-taken from the NTS by an LDZ. Each of these occasions involved an under-recording, leading to additional quantities of energy and transportation charges being allocated to LDZ connected customers. With the established process of reconciliation, this additional charge is borne by Reconciliation by Difference (RbD), i.e. domestic consumers.

The most recent of these is the now widely discussed Farningham LDZ offtake meter error. In summary, over a period spanning almost 6 years - 13 July 1999 to 30 June 2005 - the offtake meter in question under recorded the flow of gas from the NTS into the South East LDZ. Whilst there is still some dispute around the actual figures, initial calculations have established that the under-recording is about 2.4TWh, equating to a value of £25.6m.

Following each discovery of a metering error, extensive discussion has taken place across the industry, with three key themes emerging:

- the ability for errors on such significant meters to go undetected for extended periods of time;
- an industry-wide understanding and agreement of the nature and extent of the problem; and
- the most equitable settlement of incorrect charges.

At the time of writing, two Urgent Modification Proposals, both dealing with retrospective invoice correction, are being considered by the industry. One advocates a set period of two years during which revised Transporter invoices can be raised, the other proposes a backstop date of the close out of the current Transporter price control period.

The Authority is being asked to consider the merits of each of these, and decide which, if either, best facilitates the relevant Transporter licence objectives. It is hoped that the Authority will have reached a decision on implementation by the end of 2006.

The purpose of this review

The above mentioned Urgent Modification Proposals have been raised in direct response to the Farningham issue. If the Authority approves either for implementation, it will affect the recovery of charges resulting from Farningham, but will also become the baseline for the correction of any future Transporter under or over recovery resulting from a similar event.

However, irrespective of the Authority decision on whether either of those Urgent Modification Proposal better facilitate the relevant objectives, it appears to the proposer of this Review Modification that they were both raised without the degree of cross industry dialogue that this complex and potentially very costly issue warrants. The proposer therefore believes that it is now timely to instigate a review of UNC arrangements in respect of such an error coming to light.

The proposer believes that this review should be concentrated on two high level areas:

- The appropriateness of arrangements that form the baseline within the UNC; and
- Areas where the UNC is silent but where appropriate arrangements should be agreed and codified in advance of any future metering or billing error.

More detailed terms of reference are suggested below.

Any further information (Optional)

Suggested terms of reference

The Group is asked to consider:

1. Whether it is appropriate to set a fixed period for retrospective correction, or whether some other mechanism for determining the period of retrospection is more appropriate e.g. confined to a discrete price control period.
2. Whether all errors should be managed in the same way, or whether different error triggers should drive different resolution approaches. (E.g. debits vs credits, metering errors vs administrative billing errors, NTS input meters vs NTS offtake meters, different invoice types etc.)
3. The interplay between the need of shippers to consider and validate invoices in the light of the various options for limiting retrospection.
4. The need for reconciliation to be allowed to properly complete in the light of the various options for limiting retrospection.

5. The need to avoid any perverse incentives on any party to behave in a manner that would intentionally bring undue advantage to themselves, or undue disadvantage to any other party(ies). (E.g. treatment of user suppressed reconciliations).
6. The extent to which positive incentives are created, and how these might be responded to. For example, incentives upon Transporters to increase the frequency and accuracy of offtake meter inspections.
7. How different players within the industry might be advantaged or disadvantaged by the Review Group's preferred outcome.
8. The extent to which the Review Group's preferred outcome might bring equability, stability and certainty to the industry, and also better facilitate the relevant objectives contained within the Transporter licence.

Suggested timetable

The proposer believes that discussions under this Review Proposal should commence after any Authority decision on the above mentioned Urgent proposals. This will add certainty to these discussions, in particular by confirming the baseline arrangements against which these discussions will take place.

It is therefore proposed that this is considered at a December Modification Panel meeting. Whilst an exceptional Panel meeting has been called for 7 December, the proposer believes that it is more appropriate for this to be discussed at the scheduled meeting on the 21st December. It is proposed that a total period of 6 months be allowed to conclude this review.

Code Concerned, sections and paragraphs

All sections of the UNC that are either currently, or potentially, impacted by these discussions.

Proposer's Representative

Chris Wright – British Gas Trading

Proposer

Mike Young – British Gas Trading

Signature

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