Modification Report
0335: Offtake Metering Error - Payment Timescales
0335A: Significant Offtake Metering Error – Small Shipper Payment Timescales

Version 2.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Background

Gas is measured as it flows from the NTS to the LDZs by equipment commonly termed Offtake Meters. It is also measured as it flows between LDZs. Inaccuracies in the measuring equipment produce measurement errors which ultimately result in retrospective adjustments to the measured energy. In financial terms the adjustment is derived by multiplying the energy by the prevailing daily System Average Price (SAP) and takes the form of a credit or debit charged to the small supply point market via the RbD mechanism.

Currently when an Offtake Metering Error is discovered the additional debit or credit to RbD is invoiced in a single amount regardless of the cost to Shipper Users and the time across which the error occurred. It is understood by all Shippers that the correction of these errors does not inflate/deflate RbD artificially but the cash impact to Users with Small Supply Points is significant in the short term. In turn Shippers must pass on these costs in the form of risk premia within pricing to enable recovery of costs from consumers that may occur unexpectedly. In the case of the Farningham error, discovered in 2007 but relating to under recorded gas over a 9 year period, this resulted in Shippers receiving a single invoice for costs that stretched across several years.

Including adjustments in a single invoice part way through the year is a significant issue for participants operating in the competitive market. Supply businesses factor transportation costs into fixed priced tariffs and contracts, so this risk would be borne entirely by them. In addition we would note that the scale and magnitude of the adjustments means that a risk premium might need to be included in prices.

The majority of errors that occur due to Offtake Metering are debits to RbD so therefore although there is possibility of a credit current events suggest under-recording is more likely. The total under record to the industry (as shown on the Joint Office website) is now over 5,000 GWh.

1 The Modification Proposal 0335A

Introduction

Scotland Gas Networks (SGN) have raised this UNC Modification as an alternative Proposal to UNC Modification 0335. The SGN Modification Proposal includes elements of Npower's original Proposal in relation to the deferment of Shipper invoices; however it removes the retrospective element of the original Modification

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Proposal which would currently encompass any pre-existing Significant Offtake Metering Error. This Proposal also limits the extent of the obligations introduced into the UNC to Shippers with a national portfolio size of less than or equal to 100,000 Small Supply Points and where the Shipper organisation's credit limit with the respective Distribution Network is less than or equal to £500,000.

Retrospectively:

Currently UNC MOD 0335, upon implementation, would require the Downstream Transporter to pay Shipper charges associated with the energy and transportation charges incurred as a result of a Significant Offtake Meter Error upfront to National Grid Transmission. Subsequently the DN would invoice LDZ Shippers across the same period that the original error occurred to recover the amounts.

The original Modification Proposal does not differentiate between Significant Offtake Metering Errors identified and notified to the industry prior to and post any potential implementation date of the Proposal. The business rules outlined in Modification Proposal 0335 stipulate that upon the publication of a final Significant Meter Error Report the rules requiring the Distribution Network to pay charges associated with the offtake meter error would apply, however there is no recognition that errors notified prior to implementation of the Modification may still be progressing through the process and may not have reached publication of the final error report. The effect of this business rule is to introduce a retrospective application of a new obligation into the UNC, covering events which commenced prior to the Modification even being raised, let alone implemented. Specifically, there are two Significant Offtake Meter Errors (Aberdeen and Horndon) currently progressing through the UNC process which may be covered by the business rules defined in Modification Proposal 0335.

The Proposer of the original Modification argues that Modification 0335 is designed to place a "commercial incentive" on the Downstream Transporter to manage offtake metering effectively. SGN does not agree that the elements of UNC Modification 335 could effectively place an incentive on the Transporter to prevent offtake errors occurring prior to the implementation date of the Modification Proposal, as the new obligations MOD 335 would introduce were not in place at the time of the original error. It is also the case that implementation of MOD 335 would apply to events occurring prior to the date the Modification Proposal was actually raised. Therefore this alternative Modification Proposal seeks to restrict new obligations to Significant Meter Errors notified to the industry after implementation of the proposal.

Incentives:

SGN does not agree that the obligations MOD 335 would introduce into the UNC specify the correct mechanism to improve Transporter performance in this area. SGN, in conjunction with the other Transporters have instigated improved offtake metering processes and quality monitoring procedures following the occurrence of the significant offtake metering errors at Braishfield and Aberdeen. SGN have also tabled several proposals to be included within the RIIO-GD1 outputs to increase investment to facilitate installation of ultra sonic metering equipment at targeted LDZ offtake locations to increase the accuracy of measurements and reduce the potential

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for significant errors occurring in the future. Therefore SGN does not consider an incentive in the form described in the original Proposal is required to develop standards associated with offtake metering (and SGN have not based the better facilitation of the relevant objectives within this alternative Proposal on this element).

Under current UNC arrangements, where a Significant Offtake Meter Error occurs the costs borne by the Downstream Transporter in relation to the Independent Technical Expert charges are significant. Combined with costs linked to the operational requirements to facilitate on site inspections, it is likely that each error will cost the Downstream Transporter circa £100K. The costs associated with the Aberdeen Offtake Meter Error, even prior to the finalisation of the ITEs' reports, are in excess of this amount. Under Proposal 0335 the likely financing costs to SGN of subsidising Shipper and Supplier energy and transportation costs totaling approximately £65M would be in the region of an additional £3M.

This Alternative Modification Proposal restricts the obligations introduced into the UNC to qualifying small Shipper organisations with a national portfolio of 100,000 Small Supply Points or less and a combined organisational credit limit of less than or equal to £500,000. SGN accepts that the impact large offtake meter errors may have on these smaller organisations will be comparatively greater in magnitude due to their restricted access to funds and credit to finance such payments. SGN do not consider the impact on larger Shippers to be significant enough to justify a regime which requires a Distribution Network to subsidise larger Shipper / Supplier organisations for the costs associated with gas offtaken which has subsequently been sold at profit to their own domestic customers. SGN considers that notice periods provided to Shippers under the current UNC process to be sufficient to allow larger Shipper organisations sufficient time to accrue for and manage the cash flow impacts of large offtake errors.

Proposal

This section illustrates Npower's original with Scotia Gas Networks changes highlighted in red and underlined.

Currently a significant metering error once identified and quantified by the appointed ITE or ITEs (Independent Technical Expert) is incorporated within a single monthly invoice. It is proposed instead that the outstanding amount would be invoiced over the same timescales that the error occurred across for qualifying smaller shipper organisations only. Please note for the avoidance of doubt this applies to metering errors that are Significant (ie >50GWh) and which incur a debit i.e. a rebate to the NTS Shrinkage Manager only. It also does not intend to change the current UNC rules regarding the "line in the sand" date brought in under UNC modification proposal 0152V implemented in April 2008. However, if the Downstream Transporter has already been invoiced by the Upstream Transporter for an error then they are able to recover these costs from the qualifying Shippers involved whether or not they have crossed the Retrospective invoicing threshold.

For example in the case of the Braishfield B meter error if the error had not occurred the gas would have been invoiced to qualifying Shippers across 3 months, therefore

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under this proposal the cost of the error would be invoiced over 3 months after identification and quantification. This will allow qualifying Shippers to more easily absorb the cost within their cash flow and protects smaller Shippers from large unexpected debits which they cannot budget or allow for. The amounts should be invoiced in line with the principles established in UNC Modification 171 ie profiled into monthly amounts and invoiced in line with each qualifying Shipper's market share in the months of the error.

It is proposed that the interim shortfall be picked up by the appropriate Downstream Transporter who shall cover both Transportation and Energy costs. This will involve a re-imbursement of the NTS Shrinkage Manager in the case of the energy cost. We do not expect the Downstream Transporter to purchase gas but simply be responsible for the cashflow in the short term.

To ensure that cash flows across the industry are aligned as far as possible, the System Operator Commodity charge should continue to take account of the rebate received by the NTS Shrinkage manager as soon as is practicable.

Non-implementation of this proposal may result in continued cash flow impacts to qualifying smaller Shippers, which may introduce a barrier to competition in relation to this specific group of Shippers.

Business Rules

This section illustrates Npower's original with Scotia Gas Networks changes highlighted in red and underlined. The green text illustrates text removed by Scotia Gas Networks.

1. Following the publication of an Independent Technical Expert's (ITE) final report of the Significant Offtake Metering Error (where the original Significant Offtake Meter Error was notified to the Industry by the Downstream Transporter on a date after the implementation date of this Modification Proposal) the relevant Transporter shall:
   a. Re-allocate volume based on the ITE report.
   b. Calculate the outstanding amount owed to the NTS Shrinkage Manager using the current significant metering error tool.
   c. Invoice qualifying Shippers for each month in the error period in separate invoices at the rate of one invoice a month using the volume and value for each from the Significant metering error template. E.g. an error from January to March invoiced for the first amount in October would be invoiced in October for January, November for February and December for March.
   d. A qualifying Shipper in respect of rule 1 (c) is a Shipper with a national portfolio of less than or equal to 100,000 Small Supply Points and whose combined organisational Shipper Code Credit limit is less than or equal to £500,000 with the relevant Downstream Transporter at the date the Downstream Transporter is invoiced for the relevant amount by National Grid Transmission.

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e. For the avoidance of doubt Shippers with a national portfolio of greater than 100,000 Small Supply Points and / or where the combined organisational Shipper Code Credit limit is greater than £500,000 will continue to invoiced under the existing rules, i.e. a single invoice from both the Downstream Transporter and NTS for the energy and transportation charges associated with the offtake metering error.

2. National Grid NTS shall

   a. Invoice the Downstream Transporter for the outstanding amount due to the Significant Metering Error restricted to the volume relating to the qualifying Shippers' share of the outstanding amount.

   b. NTS Shrinkage manager to update the shrinkage account to reflect the invoiced debit/credit.

   c. National Grid NTS to consider changes in costs/revenues and consider setting the SO Commodity charge to meet allowed costs/revenue

3. The Downstream Transporter shall:

   a. Pay NTS Shrinkage Manager as invoiced in 2(a)

   b. Recoup the amount by invoicing qualifying Shippers as defined in 1(c)

4. The qualifying Shipper shall:

   a. Pay the Downstream Transporter as described in 3 (b).

5. If a Shipper Termination occurs any outstanding amounts shall be subject to the current UNC rules.

6. If any amount is uncollectable from a qualifying Shipper the outstanding amounts shall be re-calculated and smeared across all Shippers. This may apply in cases of Shipper Termination where a Shipper has Terminated prior to the identification and invoicing of an error that was in a period before it Terminated.

7. However, where a Shipper voluntarily exits the market (a case of voluntary discontinuance) the Shipper will request to be billed in full for any outstanding amounts owed to the Transporters for these errors.

8. If the period over which the Downstream Transporter is recovering charges from the a qualifying Shipper results in the Retrospective Invoicing threshold being passed then any costs the Downstream Transporter has paid to the Upstream Transporter in relation to the Significant Metering Error will still be recoverable from the relevant qualifying Shipper.

For the avoidance of doubt the current UNC rules contained within Section X4.3, V4.3 and S1.7 are not intended to be changed by this modification.

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2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

0335: User pays charges will apply to accommodate extra operational resource and any system development that is needed by Xoserve to carry out invoicing.

Xoserve development costs are expected to be in the region of £45k to £85K.

0335A: Not User Pays

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

0335 User Pays charges are proposed as a 100% cost to the Downstream Transporters as it is inequitable for Shippers or the Upstream Transporter to fund a system, which is needed due to failing Downstream Transporter assets.

c) Proposed charge(s) for application of Users Pays charges to Shippers

No User Pays charges applicable to Shippers.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS have been identified.

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

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

0335: As this modification would effectively place a cashflow incentive upon the Transporter community we believe this will lead to greater investment pressure upon the Transporters to establish appropriate and accurate metering at LDZ Offtake points. This would also incentivise transporters to effectively audit and monitor Offtake Meters, therefore improving the operation of the pipeline moving forward, as past events cannot be incentivised. However, some members consider more appropriate incentives could be applied through the RIIO consultation process.

As the System Operator currently makes adjustments to its charges to align with its allowed revenue this modification will also improve the System and Transportation charging calculations performed by National Grid NTS. This will result in greater confidence in charges to Shippers and therefore more cost reflective prices to customers within a Price control period.

Some members consider there is a retrospective aspect to the modification, which

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will capture previous offtake metering errors and that it is not an appropriate method to incentivise Transporters for errors that cannot be avoided, as they have already happened.

Standard Special Condition A11.1 (b): ***so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;***

0335: This modification would to providing a more stable shrinkage incentive.

Standard Special Condition A11.1 (c): ***so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***

0335/0335A: Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (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;***

0335: Some members consider competition is facilitated as the impact of any single error is reduced. However some members consider sufficient notice of charges is provided through the MER process, therefore there is no impact on competition.

The modification also ensures that shipper charges do not contain unnecessary risk premia for offtake metering errors making them more accessible to consumers. Small Shippers will benefit from this as an addition to the management of their cashflow resulting in benefits to competition. Therefore the market becomes more accessible to new entrants as costs become more predictable.

This modification should help mitigate any risk of a cash call for a Shipper during peak usage periods and allow Shippers to better manage their appropriate credit arrangements.

0335A: Although significant notice periods are provided to all Shippers (and their Suppliers) under the current UNC arrangements (specified in the UNC Related Document – "Meter Error Notification Guidelines v4.0") which allow Shippers to accrue within their accounts for amounts owing, we understand that smaller Shipper / Supplier organisations may face difficulty in obtaining access to funds and credit to facilitate payments associated with significant offtake meter errors. The implementation of this Proposal would reduce the risk associated with large offtake error invoices for smaller Shippers who may not have the ability to easily access additional funds thus promoting the securing of competition between relevant Shippers, in this case smaller and larger Shippers.

Standard Special Condition A11.1 (e): ***so far as is consistent with sub-paragraphs***

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(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;

0335/0335A: Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (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.***

0335/0335A: Implementation would not be expected to better facilitate this relevant objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) implications for operation of the System:

There are no implications for operation of the System.

b) development and capital cost and operating cost implications:

Any additional costs associated with implementing systems or process changes to accommodate the proposal would be funded by the Distribution Networks. Xoserve have indicated that system requirements to facilitate implementation of the original proposal would be in the region of £45K to £85K. It is expected that the added complexity of this alternative Proposal, which only encompasses a sub set of Shippers, would add a small marginal cost to the billing tool required to manage the process.

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

Costs associated with the implementation of the Proposal would be funded by the Distribution Networks.

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

Contractual risk for the relevant Downstream Transporter would be increased in relation to the potential of default of payment by a qualifying Shipper, although the risk would be less than obligations introduced by the original Proposal which covers all Shippers and greatly increased sums.

6 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

There is a risk that Transporters may under recover charges should Ofgem determine that Transporters are unable to recover charges from all Shippers under Business Rule 6 due to a Shipper default.

Some members consider this risk can be managed by the use of appropriate risk management tools, including robust offtake metering maintenance practices.

7 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

Transporter systems are likely to be impacted by this modification. Details are unknown at this stage. New invoices types and file formats may be required. Relevant notification periods and file format approval via the UK-Link Committee would also be required following the stipulated notice periods. This is in line with the original Proposal.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Additional administrative procedures associated with the receipt of multiple invoices would be required for qualifying Shippers although these are not envisaged to be overly burdensome.

Development and capital cost and operating cost implications

None anticipated.

Consequence for the level of contractual risk of Users

All Users would be subject to increased contractual risk associated with the potential for a qualifying Shipper to default on payments with the uncollected amounts being smeared, although the level of risk may be reduced in comparison to the original proposal as the associated financial amounts would also be reduced.

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

No implications have been identified.

10 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

No consequences have been identified.

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

Advantages

- This modification may indirectly improve the operations of the Shrinkage manager as incentives upon the Transporters would give more guarantee as to the accuracy of their shrinkage calculations.

Disadvantages

- None identified to those listed above.

12 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	Position		Preference
	0335	0335A	
British Gas	Supports	Not in Support	0335
E.ON UK	Supports	Not in Support	0335
Ecotricity	Qualified Support	Qualified Support	0335
First Utility	Supports	Supports	0335
National Grid Distribution	Not in Support	Not in Support	0335A
National Grid NTS	Not in Support	Not in Support	0335
Northern Gas Networks	Not in support	Not in support	0335A

RWE npower	Supports	Comment	0335
Scotia Gas Networks	Not in support	Supports	0335A
SSE	Not in Support	Not in Support	0335A

In summary, of the ten representations received, 4 support, 1 offers qualified support and 5 oppose the implementation of Proposal 0335. 2 Support, 1 offers qualified support. 1 provided comments and 6 oppose the implementation of Proposal 0335A.

British Gas believe it is unfair for Shippers to bear the cash flow risks associated with inaccurate Offtake Meters and believe that these risks should flow to the Network Owners as they have both the responsibility and ability to prevent them. By doing so, the costs associated with failure would be correctly apportioned and an incentive would be created on the Network Owners to properly manage the assets in their portfolio, reducing overall risk in the market.

British Gas highlight that as the RbD process is used to recover the amount of unrecorded energy associated with an Offtake Meter error, a Shipper's exposure to these costs is determined by their market share of aggregate Annual Quantity. This means that the impact on each Shipper is entirely proportional to the amount of gas used by their portfolio. It is therefore not correct to argue that large Shippers are less affected; all Shippers are equally as affected relative to their size.

National Grid Distribution believe neither Modification Proposal would: better facilitate the achievement of the Relevant Objectives; nor constitute an appropriate or effective incentive for DNOs to take action to minimise instances of Significant Metering Errors. Whilst they understand that many Shippers find the resolution of offtake metering errors, and the lengthy process used to determine the quantity of energy mis-measured, frustrating, they do not believe a mechanism where DNOs temporarily fund energy reconciliations is an appropriate solution.

National Grid Distribution does not consider that it is either efficient or economic to introduce another party (the relevant downstream transporter), together with the additional administration and duplication of certain activities that this would entail, into the existing process for invoicing Significant Meter Error adjustments. In their opinion this would only serve to generate additional costs with no discernible benefit to consumers. They also consider that it would not be efficient to extend the existing period over which SMER adjustments are invoiced any further.

National Grid Distribution also do not agree that correction to the RbD allocation to shippers with a Small Supply Point portfolio is detrimental to a shipper's cash-flow or that the reconciliation invoice is a surprise. Had the meter worked correctly, the "error" gas would have been allocated to shippers on the gas flow day; the error correction process simply puts right something that should have happened earlier. In terms of a cash flow shock, estimates of the financial adjustment are issued very early in the process and most SMERs take about a year between detection and invoicing. By the time the invoices are issued, shippers have had ample time to

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accrue for the reconciliation values.

National Grid NTS do not support either modification as both would have a fundamental impact on existing invoicing processes and the benefits do not outweigh the additional costs in administration. They also consider that retrospective application would add a new and significant risk element into the commercial regime.

Northern Gas Networks believe the Measurement Error process provides Users with the opportunity to accrue for the financial impacts and make appropriate plans for the financing of the final billing. They believe that the advance notice provides sufficient opportunity to plan for the cash impact which results from offtake metering errors and therefore do not believe that it is appropriate for the DNs to provide financing to Users in the event of a predictable reconciliation. Northern Gas Networks also note that the cost of implementing the complex billing systems that will result from the implementation of these modifications is significant. In addition to the Xoserve changes, there will need to be new processes and system changes for DNs to enable them to receive and process the invoices in addition to the financing costs that DNs will incur to cover the cash flow impacts of the changes. In addition to the financing, these changes would require additional securitisation for credit with the DNs to cover the new charges. For Shippers that operate close to the top of their unsecured maximum, these changes could require shippers to also post additional security in the form of Letters of Credit or cash deposits for a prolonged period of time.

RWE npower believe Modification 0335 will enable cost adjustments to be spread over a period that mirrors the length of time over which the Offtake Metering Error occurred. This will assist Shippers in managing cash flow. In addition, RWE npower considers that by creating a financial impact on the Transporters in the event of an error, 0335 will incentivise them to take steps to avoid this and will therefore bring about an improvement within the current Offtake Metering regime. This would result in Shippers carrying less risk and therefore enable them to avoid adding unnecessary risk premia to customers' bills.

Scotia Gas Networks does not support the implementation of Modification 0335 based on the significant retrospective element the proposal would impose on Distribution Networks, specifically Scotland Gas Networks in relation to the Aberdeen offtake metering error. Implementation of Modification 0335 would require the DN to fund both the energy costs and the transportation commodity charges associated with an offtake metering error and then recover from the LDZ Shippers these costs over a period identical to the original offtake error. DN financing costs associated with funding these energy charges would be substantial. In relation to the Aberdeen offtake metering offtake error the cost to SGN of funding these energy charges would be in the region of £3M (total energy charges for Aberdeen would be in the region of £65M).

Scotia Gas Networks explain that the gas Shipper and Supplier will have invoiced its customers for the charges associated with the use of gas within the LDZ. However, during both the measurement error period and the subsequent notification period, following the incorrect recording of gas flowing into the LDZ, the LDZ Shippers will

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not have been invoiced the correct amounts for both gas transportation commodity and gas energy charges. Therefore, with the invoicing of the offtake error which is correcting the initial under billing, they believe it would be inequitable to require the Distribution Network to continue to subsidise this arrangement in line with the measures Modification 0335 would introduce. They consider that the Shippers will have been provided with sufficient notice of the pending invoice associated with the offtake error and therefore do not require further shielding from the cost of the gas they have supplied to their customers.

SSE believes that neither of these modifications are the best method to incentivise Transporters to avoid metering errors and are also not the best use of funds. They believe implementation of Modification 0335 would effectively impose large penalties for known about significant metering errors not yet invoiced and for future ones, whilst Modification 0335A would impose potentially much smaller future penalties. Whilst Modification 0335 would give all Shippers some cash flow benefits, SSE believe that the costs incurred by Transporters in financing such a cash flow would be significantly more, thus increasing overall costs within the gas industry, and could lead to Transporters being unable to finance other functions, such as improvements in the detection of metering errors as outlined in Modification 0335A.

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

No such requirement has been identified.

14 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 requirement has been identified.

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

The 0335 ROM indicates analysis of the solution requires 16 to 22 weeks with implementation requiring a further 12 to 15 weeks. This timeline excludes any Transporter works to implement the modification. Implementation of the proposal could follow direction from Ofgem although any significant offtake errors notified to the industry after the implementation date would require to be processed in line with the required systems' implementation date.

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

Proposal could be implemented following direction from Ofgem.
The ROM indicates analysis of the solution requires 16 to 22 weeks with implementation requiring a further 12 to 15 weeks. This timeline excludes any Transporter works to implement the modification

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

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

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

The Panel Chair summarised that this modification seeks to amend the profile of payments due following identification and quantification of significant offtake meter errors. At present, once corrections have been identified, these are invoiced in a single amount. It is proposed that this is instead profiled such that payments are spread across a number of months, with the invoicing period matching the period over which the error occurred. In the case of the alternative modification, larger Users would continue to be invoiced in a single amount, with the profiling approach restricted to smaller Users. By extending the time over which the DNs are able to reclaim any costs (or must make a repayment), there would be a cashflow impact. Given that the majority of errors tend to mean payments being due from Users, an adverse cashflow impact on the DNs is anticipated with, conversely, a cashflow benefit for Users.

As a cashflow cost would be introduced for the DNs, they would have an incentive to avoid that cost (in keeping with all other costs). To the extent that the DNs are able to identify actions which are expected to reduce the occurrence and/or duration of offtake meter errors, and to which the cost of those actions is less than the anticipated benefit through avoided cashflow costs, it may be expected that the value of gas impacted by offtake meter errors would be reduced as a result of implementing either modification. Some Members anticipated that this incentive effect would provide a real benefit such that implementation of either modification might be expected to further the relevant objectives. In particular, a reduction in the scale of offtake meter errors could be expected to lead to a more accurate allocation of costs to the parties responsible for those costs, with improved cost reflectivity facilitating the development of effective competition. An increase in the reliability of offtake meter information might also be expected to lead to more efficient and economic system operation, with superior information supporting appropriate decisions by the system operator. However, other Members did not believe that there would be any response to the potential cashflow benefit – behaviour would be unchanged and so there would be no impact on the relevant objectives as a result of implementation for either modification. Members accepted, however, that to the extent that any incentive effect would be introduced, this would be greater under Modification 0335 than under 0335A in light of the larger sums involved.

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Some Members argued that the positive cashflow benefit for Shippers could be expected to facilitate effective competition to the extent that some Shippers may face difficulty paying any due amount in a single invoice. It was suggested that this may be particularly critical for the smallest Shippers, with cashflow issues often providing a barrier to entry or to growth. By changing the profile of payments, some Shippers may be able to compete more effectively and hence implementation would facilitate the achievement of the relevant objectives. However, other Members observed that this is dependent on specific circumstances and that profiling payments would have an impact on credit requirements. The existence of liabilities over a longer period may involve the need to post credit for a longer period, and hence implementation may increase rather than decrease the costs faced by some Users, such that the suggested competition benefits may not materialise in practice. In addition, notice of the error will have been given and Users will have had the opportunity to accrue for the costs, such that there should be no detrimental impact on competition.

Members then voted and, of the ten possible votes:

- five were cast in favour of implementing Modification 0335; and
- three were cast in favour of implementing Modification 0335A.

The Panel therefore failed to determine to recommend implementation of either Modification 0335 or 0335A.

Members then considered which of Modification 0335 or 0335A would, if one were implemented, be most likely to facilitate achieving the relevant objectives. Of the ten possible votes:

- four were cast in favour of determining that 0335 better facilitates the Relevant Objectives than 0335A
- five were cast in favour of determining that 0335A better facilitates the Relevant Objectives than 0335.

The Panel therefore failed to determine by Panel Majority that, relative to the other, implementation of either 0335 or 0335A would better facilitate achievement of the relevant objectives.

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

Legal Text for Modifications 0335 and 0335A has published alongside this report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters