

CODE MODIFICATION PROPOSAL No 0335
Offtake Metering Error - Payment Timescales
Version 9.0

Date: 10/06/2011

Proposed Implementation Date: As soon as possible following Authority consent

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

1 Nature and Purpose of Proposal (including consequence of non implementation)

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.

Proposal

Currently a significant metering error once identified and quantified by the appointed ITE (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. Please note for the avoidance of doubt this applies to metering errors that are Significant (ie >50GWh) and which incur a debit ie 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 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 Shippers across 3 months, therefore under this proposal the cost of the error would be invoiced over 3 months after identification and quantification. This will allow Shippers to more easily absorb the cost within their cashflow 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 Shippers 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-imburement 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 cashflows 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 will result in continued cashflow impacts to Shippers, introducing a barrier to competition and placing no commercial incentive upon the originators of the error.

Business Rules

1. Following the publication of the Independent Technical Expert’s (ITE) final report of the significant metering error 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 the 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. Eg 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,.

2. National Grid NTS shall

a. Invoice the Downstream Transporter for the outstanding amount due to the Significant Metering Error.

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 Shippers as defined in 1(c)

4. The 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 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 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 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.

2

User Pays

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

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

ROM requested from xoserve

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

We suggest this is 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**

N/A

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

3

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence

This modification proposal would better facilitate the following Relevant Objectives:

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

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 these Offtake Meters, therefore improving the operation of the pipeline.

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.

Standard Special Condition A11.1 (b): So far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of:

- (i) The combined pipeline system, and/or**
- (ii) The pipeline system of one or more other relevant gas transporters**

See above. This would also improve the operations of the Shrinkage manager as incentives upon the Transporters would give more guarantee as to the accuracy of their shrinkage calculations. It would also contribute 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

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.**

Competition is facilitated as the significance of any single error is reduced and any new participants in the market will be able to manage costs more effectively as they will be within an expected timescale and more predictable. It also ensures that shipper charges do not contain unnecessary risk premia 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.

Standard Special Condition A11.1 (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 are satisfied as respects the availability of gas to their domestic customers.

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

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.

Implementation would not be expected to better facilitate this relevant objective.

- 4 **Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text**

No implications have been identified.

- 5 **Code Concerned, sections and paragraphs**

- a) Offtake Arrangements Document, Transportation Principal Document
- b) Uniform Network Code

Section(s)

Proposer's Representative

Jonathan Wisdom (RWE npower)

Proposer

Jonathan Wisdom (RWE npower)