

UNC Mod Panel Secretary
Joint Office of Gas Transporters
31 Homer Road
Solihull
West Midlands
B91 3LT

02 December 2011

Dear Bob,

Re: **UNC Modification Proposal 0335: Offtake Metering Error – Payment Timescales and UNC Modification Proposal 0335A: Significant Offtake Metering Error – Small Shipper Payment Timescales**

Thank you for the opportunity to respond to these Modification Proposals. Northern Gas Networks (NGN) does not support either of these modification proposals, although we have a slight preference for Modification 0335A.

Summary of reason for support/opposition

Offtake metering is an important part of the Distribution Network (DN) activity, and the changes proposed in the UNC Modifications have arisen as a reaction to a small number of significant metering errors which have occurred in recent years. These changes appear to build on the obligations placed on Gas Transporters to report errors at an earlier stage and to provide independent assessment of error resolution where the metering error is considered to be significant.

NGN believes that the maintenance and validation of offtake metering is an integral part of operating a safe and efficient network and supports the use of independent experts to make assessment where the correction of error may have impacts on several parties. The process introduced to procure this independent expertise has resulted in a more transparent and equitable means of correcting underlying data errors and gas allocations that result from significant metering errors.

This process has, however, lengthened the time that it takes from identifying and notifying the industry of the error and physically correcting the cause of the error through to making the appropriate adjustments to the gas allocations for the period in which the error was present. This extended timeframe provides opportunity for Users to analyse and challenge data and calculations as well as providing significant advance notice of likely financial impacts from the reallocation that will result from the final reconciliation.

UNC Modification 0335 was proposed as a means of reducing both cash shocks to all Users and to act as an incentive to Transporters to improve the accuracy of offtake metering, while UNC0335A seeks to limit the changes to smaller shippers. As noted above, the process for notifying the industry of metering errors and appointing an independent expert provides a significant amount of time for Users to assess and accrue for an appropriate impact that will result from an offtake metering error. The Significant Measurement Errors which are currently being assessed by independent experts have now been in the public domain for approximately a

year and are not yet concluded, which provides Users with the opportunity to accrue for the financial impacts and make appropriate plans for the financing of the final billing. NGN believes that the by providing such advance notice of a future invoice, Users should accrue the costs accordingly and be able to make plans for the cash impact of the invoice which will be issued at a future point in time. This advance notice provides sufficient opportunity to plan for the cash impact which results from offtake metering errors and therefore we do not believe that it is appropriate for the DNs to provide financing to Users in the event of a predictable reconciliation.

We note that UNC0335 would also introduce a significant retrospective element, so as to cover the existing Significant Measurement Error Reports when published, and believe that this retrospective element is not consistent with intentions of incentives. For incentives to be effective the party should be aware of these and have an opportunity to mitigate against the adverse affects of the incentive. While it may be argued that an incentive to improve metering accuracy could be implemented to cover future activity, it is inappropriate to also make this retrospective as there was no opportunity to take any different action. NGN believes that good incentives should be balanced with risk and reward to be effective and does not believe that this change to the UNC invoicing meets this criterion.

New or additional issues

No comments.

Relevant Objectives

NGN does not believe that these modifications will better facilitate the relevant objectives as stated in the proposals:

A11.1 (a): NGN does not believe that this change is likely to cause any changes to the existing maintenance and validation processes directly. This is an area where change is often driven by engineering best practice. This being the case, changes made on a incremental basis using lessons learned have more impact than imposing a financing arrangement for DNs to pay for User gas allocation.

A11.1 (d): as noted above, the cash flow impacts of this change will enable shippers to postpone known cash for an extended period, therefore possibly avoiding some financing costs. These impacts are unknown in scale, so the extent to which this may influence the competitiveness of shippers is unclear.

Impact and Costs

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 costs above, these changes would require additional securitisation for credit with the DNs to cover the new charges. This was highlighted during the development of the modification, but discounted by shippers. 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.

Implementation

Significant changes to existing invoicing systems and complex administrative processes will be required to be able to operate the changes proposed in these modifications on an infrequent basis. New invoice types and charge types will be required, both of which will need to be subject to the relevant notice required for UK Link.

Legal Text

No comments.

I hope these comments will be of assistance. Please contact me should you require any further information in respect of this response.

Yours sincerely,



Joanna Ferguson
Network Code Manager