

Workgroup Report
Offtake Metering Error - Payment Timescales
Modification Reference Number 0335

Version 1

This Workgroup Report is presented for the UNC Modification Panel's consideration. The Distribution Workgroup considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workgroup recommend that the Panel does not request the preparation of legal text for this Modification Proposal.

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.

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.

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

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

The Proposer 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

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;*

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 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;*

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;

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;*

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.

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 (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;*

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.*

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:

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

Transporters are likely to incur financing costs associated with the recovery of charges for a metering error over a prolonged period of time.

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

User pays 100% to Transporters.

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

No consequences have been identified.

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.

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)

There are likely to be minor additional costs for administering the invoice.

Development and capital cost and operating cost implications

None anticipated.

Consequence for the level of contractual risk of Users

Shippers may face an additional risk due to a Shipper default and they have not paid their share of the metering error charges.

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 Workstream Report)

No written representations have been received.

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 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

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 Workstream recommendation regarding implementation of this Modification Proposal

The Distribution Workgroup considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workgroup also recommends that the Panel does not request the preparation of legal text for this Modification Proposal.