

**Draft Report on UNC Modifications
0395 & 0398**

**A report for I&C Shippers & Suppliers
(ICoSS)**

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Ltd**

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Revision History		
Version	Date	Revision Description
0.1	10 th July 2012	Creation of documents

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Background

Modification History

In August 2011, EDF Energy raised a UNC modification (UNC Mod 0395) which looked to shorten the current reconciliation backstop, which is the point up to which meter readings would be reconciled by Xoserve when submitted, from 4-5 years to 2-3 years¹. The rationale given for this change was that it would protect shippers from unexpected invoice adjustments. Wales and West Utilities (WWU) subsequently raised UNC Mod 0398, which seeks to create a 3-4 year cut-off date. The rationale given for raising this subsequent change is that a 2-3 year cut-off would impact on other system processes run by the transporters, but that a 3-4 year cut-off could be accommodated without any major system changes being required.

These consultations were both submitted to Ofgem for decision in February 2012 (0395) and January 2012 (0398).

Ofgem decisions

UNC Modification 0395 was not recommended by the Panel, but UNC Modification 0398 was. Ofgem however did not reject or implement either modification, but has instead used its send back powers to request that further work is done to assess the impact of both modifications.

The additional analysis requested by Ofgem is set out below:

- *Quantify the benefits of the modification proposals in terms of the reduction in shippers' risk and credit exposure;*
- *Determine the causes of energy remaining un-reconciled after 3-5 years;*
- *Set out the typical lead times to resolve settlement disputes or adjustments, together with the estimated scale and age profile of such adjustments;*
- *Consider the financial implications of a shortened reconciliation window in terms of re-distribution between Small Supply Point (SSP) and Large Supply Point (LSP) sectors (or vice versa); and,*
- *Further consider the impact of these proposals upon UNC Parties non-code liabilities, their ability to mitigate any associated risk and the applicability of remedies outside of the normal settlement process.*

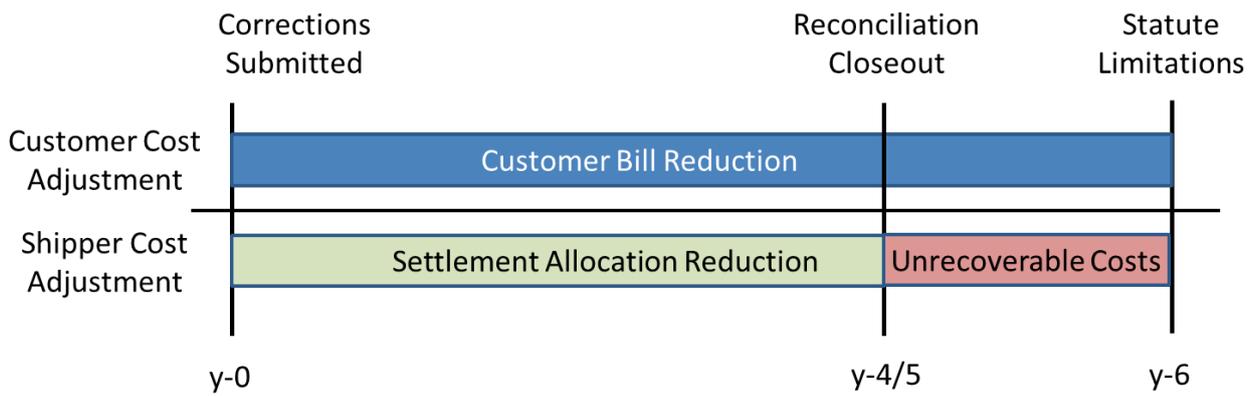
The UNC distribution workstream provided some additional comments in response to these questions, which were included in the consultation published by the Joint Office in June 2012.

Impact on Industry processes

Industry Responses

It should also be noted that if a correction to a customer invoice is needed due to overpayment, then the customer is entitled under primary legislation to request a correction back for six years. However the supplier can only reflect this in settlement currently for 4-5 years, as illustrated below:

¹the window is variable as the date to which reconciliation is currently set at 1 April y-4, so at present the back stop date is 1 April 2008. On 1 April 2013 this will be reset to 1 April 2009.



Were the current timescales shortened then this discrepancy would increase. This will potentially expose shippers to more costs as the both the number and materiality of bill corrections that cannot be fully reflected in settlement will significantly increase.

Data Analysis

WWA is currently undertaking detailed analysis of the impact that these two modifications will have on the industry, in particular the ability for suppliers to reconcile system errors. From information provided by industry members on reconciliations above 500,000 kWh, (around 25,000 instances), WWA has attempted to determine the number of spread of reconciliations that would be excluded by Modification 0395 and Modification 0398. It has also attempt to determine their relative age and their materiality.

Figures 1 and 2 plot the spread of reconciliation cases for the between gas shippers and customers that would be excluded from reconciliation if Modification 395 and Modification 398 had been in place at the point which the reconciliation claims were opened.

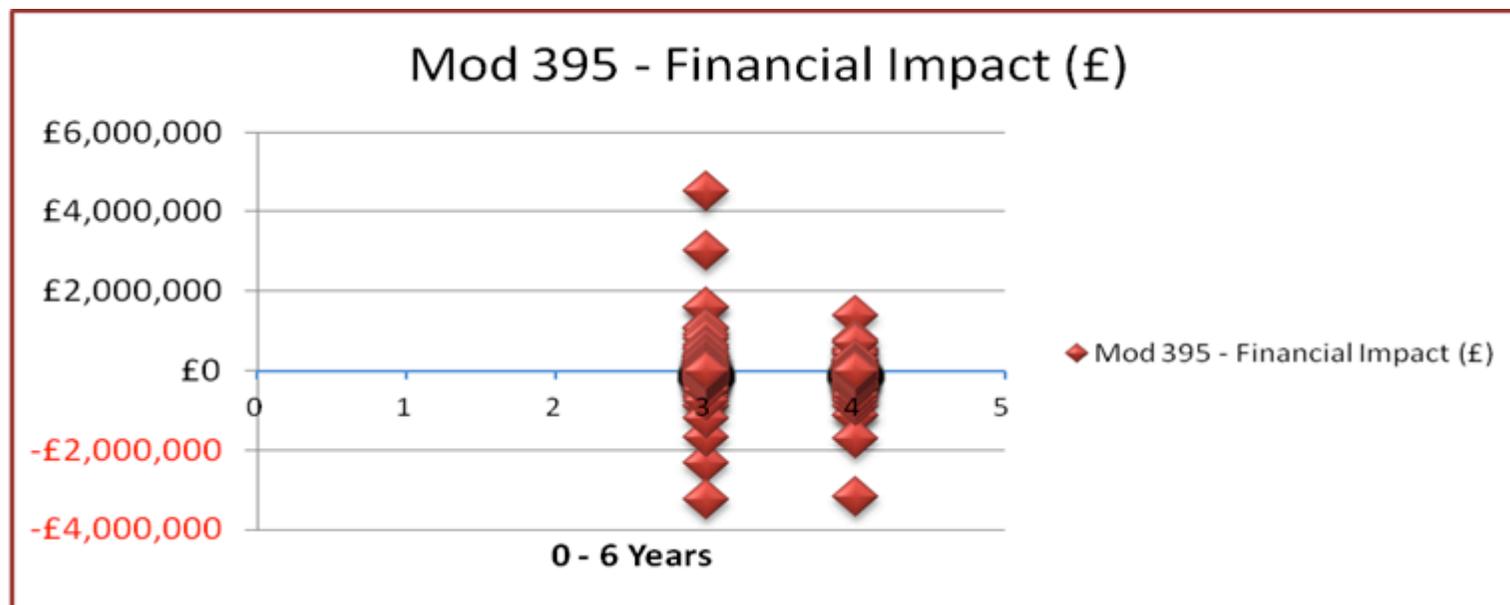


Figure 1: Spread of reconciliation variability of Mod 395.

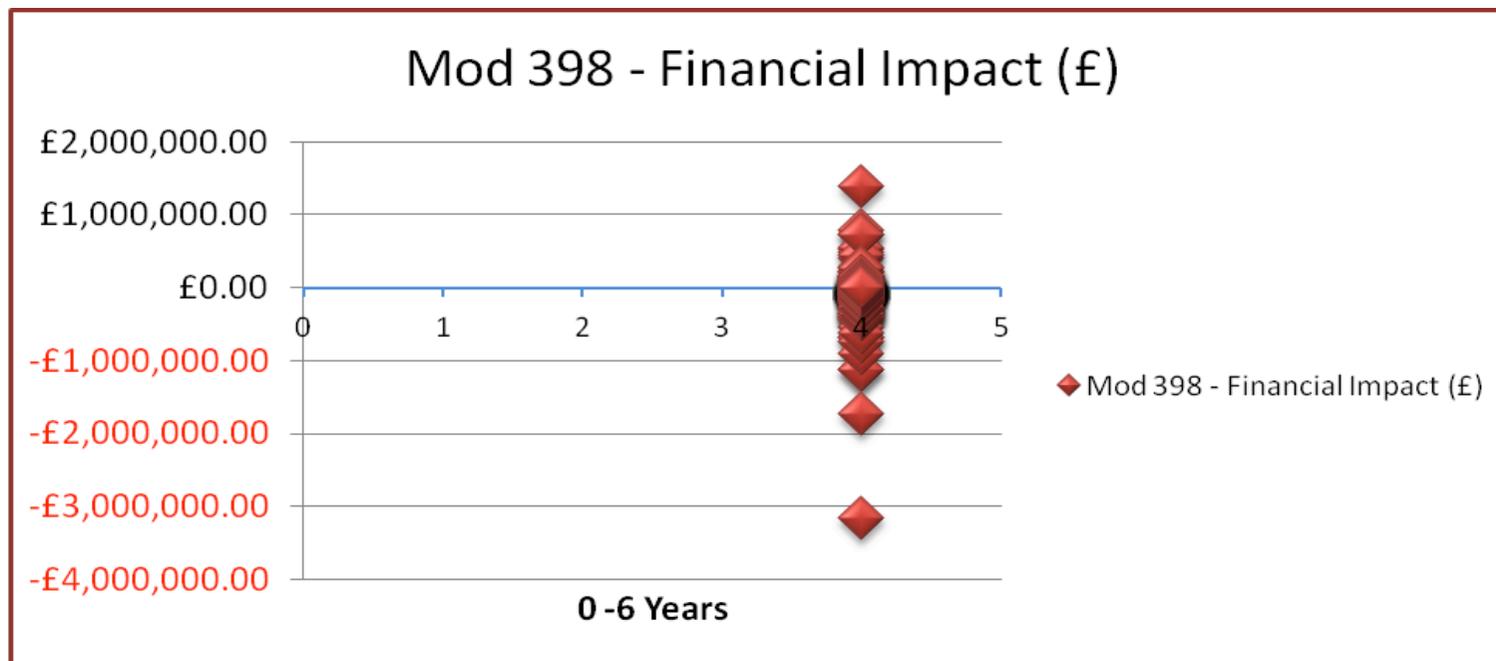


Figure 2: Spread of reconciliation variability of Mod 398.

Note that the following assumptions were made when determining the monetary value of reconciliations. A gas price of 2.5p/kWh was assumed to account for imbalance gas costs and the cost of serve for the customer (as energy reconciliations only represent a portion of cost to supply customers).

The following initial points can be drawn from this information:

- There are significantly larger exposures (up to the £4million mark per individual reconciliation) closer to the present. This may be due to that fact that Shippers and Customers are likely to spot larger ticket items and so correct them earlier as they represent a larger exposure to their business.
- There are significant numbers of smaller reconciliations. 90% of reconciliations provided have a materiality of less than £50,000, which is the current threshold limit for settlement claims process proposed in modification 0429.

Future work

WWA has been unable to complete the analysis of the information provided to it by ICoSS members due to a lack of time. The following areas will be examined and will be available in the next week.

- Fuller analysis of the spread of reconciliations that have been undertaken by non-domestic suppliers.
- Determination of the risk that shortening of the reconciliation process will have on shippers, in particular the financial impact on shipper margins.
- Probability of large scale reconciliations occurring to a shipper's portfolio.
- Case Study analysis of large scale reconciliations, in particular the timescale and success of adjusting customer invoices.
- Conclusions and recommendations based on the information analysed will also be provided.