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Your Reference: UNC Modification Proposal 0429.

Re: UNC Modification Proposal 0429: Customer Settlement Error Claims Process

Dear Bob,

Thank you for your invitation seeking representation with respect to the above Modification Proposal which, on balance, we are unable to support.

Do you support or oppose implementation?

Not in support

Please summarise the key reason(s) for your opposition.

National Grid Gas Distribution ("NGD") understands the rationale behind this proposal and how long-running errors may have a material impact on Users in a particular sector of the gas market. Given the size of the trigger threshold (£50k) it is likely that this will only be utilised by Users registered at Larger Supply Points. At the time that this Proposal was raised we were of the opinion that the existing close out arrangements (i.e. 4/5 years close-out for back-billing) meant that the financial exposure, associated with unresolved or recently discovered historic errors, was relatively low. Since this proposal was raised, a shorter close out billing period has been implemented which means that the materiality of adjustments that could be processed by this mechanism has, in all likelihood, increased. While we fully appreciate that the commercial regime could leave Users exposed to costs which cannot be reconciled through UNC processes, we have some concerns regarding the mechanism by which these claims would be processed by Xoserve.

Our preference not to support the proposal is based upon three concerns:

- The method for redistributing the claim to the market, which may generate charges to Users who were not party to the UNC at the time of the error due to the inherent time lag, or who were not active in the LDZ where the claim originated;
- Ensuring a suitable level of validation. We have some unresolved concerns about exactly how much validation Xoserve should undertake to ensure that the process is equitable on both sides (i.e. for the claimant and the counterparties). Whilst there were extensive discussions about this within the Workgroup, we are concerned about the low level of validation which has ultimately been included in the business rules.
- It may not drive the correct behaviours for timely assessment of these adjustments;

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No.

Relevant Objectives:

Relevant Objective (d) 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.

We note the comments contained within the Draft Modification Report, in relation to how implementation of this proposal would promote competition by reducing risk and we acknowledge some of the arguments made in this respect.

We also have some sympathy with the concerns expressed in relation to the redistribution of costs back to the industry at the time of the claim rather than the time the incident occurred. We agree this could have a negative impact on competition as it may provide a barrier to market entry. In short, a new entrant may potentially incur the costs as a result of claims by others. This was one of the key drivers behind the implementation of Modification Proposal 0171: Amendment of User SP Aggregate Reconciliation Proportion to incorporate historical AQ Proportions, which introduced a method for more accurately cost targeting a specific type of adjustment. Modification Proposal 0429 allows for adjustments for periods beyond the invoicing close out date but the method of redistribution to the community, (via balancing neutrality), may potentially lead to misallocation of costs. Whilst we understand the rationale for choosing this method, that is, its inherent simplicity, to support it could be contrary to the principle that costs are appropriately targeted.

Impacts and Costs:

NGD would make the following observation in relation the User Pays aspects of this Proposal. The Draft Modification Report states that this would be a User Pays Modification, with 100% allocation of the development costs to Users. Should the proposal be implemented, and in the event we start incurring significant transaction costs, we reserve the right to propose a change to the Agency Charging Statement (ACS).

Implementation:

We agree with the implementation timescale proposals identified within the Draft Modification Report.

Legal Text:

We are satisfied that the suggested text, as published by the Joint Office within the Draft Modification Report meets the requirements of the Modification Proposal.

Is there anything further you wish to be taken into account?

No.

We trust that this information will assist in the compilation of the Final Modification Report. Please contact me on 01926 653559 (alan.raper@nationalgrid.com) should you require any further information.

Yours sincerely,

Alan Raper
National Grid Gas, Distribution