

## Representation

### Draft Modification Report

#### 0429: Customer Settlement Error Claims Process

**Consultation close out date:** 07 June 2013

**Respond to:** enquiries@gasgovernance.co.uk

**Organisation:** National Grid NTS

**Representative:** Hayley Burden

**Date of Representation:** 07 June 2013

#### Do you support or oppose implementation?

Support/Qualified Support/Neutral/Not in Support/Comments\* *delete as appropriate*

#### Please summarise (in one paragraph) the key reason(s) for your support/opposition.

National Grid NTS (NG NTS) is responding to this Modification Proposal in the context of the impacts the proposed changes may represent to it as the NTS System Operator (SO) and the industry as a whole. NG NTS foresees that the implementation of this proposal will have a limited impact on its role as the NTS SO and would also like to highlight some other points concerning the proposal relating to other industry participants.

From the NTS SO perspective, Modification 429 outlines that the settlement of errors within this process is achieved through both energy and transportation corrections. In any claim the Transportation charges that are relevant at the time of the claim will be referenced. If a claim from this process is identified on an NTS meter, then this will have an impact on NG NTS and its adjustment of allowed revenue. The over or under recovery of allowed revenue generated from this process would result in a financial adjustment that impacts upon Transportation charges. Under the transmission price control period which ended on 31 March 2013 (TPCR4), any adjustments would be reflected in the following year's Transportation charges, which the modification reflects. However, the new RIIO-T1 price control (1 April 2013 to 31 March 2021) has changed this and there is now a 2 year time delay to when adjustments are reflected in the Transportation charges, unless costs are for a period prior to April 2013. The modification proposal does not reflect this change brought about under RIIO-T1.

From the wider industry perspective, Modification 429 seeks to reduce the financial exposure to shippers after closure of the reconciliation period by devising a Customer Settlement Claims Process extending to y-6, to align with the Limitation Act 1980. It is our view that the Limitation Act 1980 is not applicable in the context of UNC. By virtue of being a shipper, the User is agreeing to the contractual

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obligations of the UNC. The UNC states that the current cut-off date of the reconciliation period is y-4 (y-3 as of 1<sup>st</sup> April 2014 due to implementation of Modification 398), therefore a shipper is agreeing that they will not be able to reconcile any outstanding commercial debt outside of that period. If there was no provision of a time limit for reconciliation specified within the UNC, then a claim may be able to be brought under the Limitation Act 1980; however in this instance it is our view that the Limitation Act 1980 is not relevant to UNC contractual relationships.

The modification proposes that the Customer Settlement Error Claims Process will assist in ensuring smaller shippers and suppliers are not exposed to large and unpredictable risks from un-reconciled debt, thus reducing barriers to the market and therefore facilitating effective competition. We believe that this proposal could have an opposing effect on the market. The claims process proposes to utilise the Balancing Neutrality mechanism, resulting in claims being smeared across industry based on throughput at the time the error is reconciled. This disconnects from the prevailing reconciliation process and principles, provided within the UNC. Under current arrangements, Daily Metered (DM) and Non-Daily Metered (NDM) reconciliation within the LDZ re-apportions energy costs on the basis of Aggregate NDM market share within the LDZ, at the time of the error. By using the Balancing Neutrality mechanism at the time of correction for this process, both existing and newly established shippers within the market, (who may not have even been operating when the error occurred), could be exposed to financial risk. This could reasonably be perceived as a barrier to the market and create unfair competition between shippers.

We are also concerned that the proposal could expose shippers who may have only flowed gas through the NTS to unexpected financial risk resulting from an error contained solely within a LDZ. Use of the Balancing Neutrality mechanism will result in each NTS shipper picking up a proportion of the cost based on their NTS throughput, at the time of the claim resolution. This may also create a situation of unfair competition between shippers and result in a misallocation of costs within the industry.

Ofgem has recently approved Modification 398 which reduces the reconciliation time period contained within the UNC to y-3 years from y-4 years from 1<sup>st</sup> April 2014. One of the benefits sought by this modification is to incentivise industry participants to resolve and reconcile meter errors in a timely manner. It would appear that Modification 429 has the potential to create a divergent impact to Modification 398. A delay in reconciling debts so they fall within the Customer Settlement Error Claims Process described in Modification 429 would permit the use of the Balancing Neutrality mechanism to recover costs. This could be of benefit to some shippers and to the detriment to others, and may not afford shippers the correct incentives to recover debts in a time efficient manner. This again has the potential to create a situation of unfair competition among the shipping community.

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Within the proposed process there appears to be limited validation carried out on the evidence provided by the User. For claims above a certain threshold, it may be prudent for there to be an element of additional validation of the claim, utilising methodology such as that contained within the Measurement Error Report (MER) process. This would provide a more transparent and rigorous validation procedure for all parties concerned.

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

None.

### **Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

NG NTS has concerns whether this modification meets the relevant objectives. We suggest that the modification could be seen to discriminate against different shippers across the total system. New entrants could be faced with barriers to entry due to exposure of financial risk from use of the Balancing Neutrality mechanism to apportion costs. In addition to this, as previously stated, an NTS User may face costs through the Balancing Neutrality mechanism due to a meter error contained solely within the LDZ. We suggest that the impacts described arising from this proposal do not meet the requirements of Relevant Objective (d) Securing Effective Competition. The impacts have the potential to create a situation of unfair competition and result in the misallocation of costs among the shipping community.

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if this modification were implemented?*

N/A

### **Implementation:**

*What lead-time would you wish to see prior to this modification being implemented, and why?*

N/A

### **Legal Text:**

*Are you satisfied that the legal text and the proposed ACS (see [www.gasgovernance.co.uk/proposedACS](http://www.gasgovernance.co.uk/proposedACS)) will deliver the intent of the modification?*

N/A

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

*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.*

N/A