

**Draft Modification Report**  
**Introduction of a financial incentive performance regime for the resolution of User Suppressed**  
**Reconciliation Values (USRVs)**  
**Modification Reference Number 0637**  
Version 2.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

## **1. The Modification Proposal**

To reduce the number of unresolved suppressed NDM Reconciliation Values through the implementation of a financial incentive performance regime, as follows:

### **USRV Backlog**

All items in the suppressed pot as at the implementation date will be assessed for the 95% standard with the first date for potential incentives being the 20th of the second month following implementation. At this time, the backlog will be analysed and any items which are over four months old will incur an incentive payment of £30. On the 20th of each subsequent month, a charge of £30 would apply to each item in the backlog over 4 months old at that date.

### **Ongoing performance incentive.**

For all USRVs received from Transco between the 21st of a month and 20th of the following month, (period X), each User shall provide a full response to Transco for 50% of such queries by the 20th of month X + 1 and for 95% of such USRVs by the 20th of month X + 2.

No incentive would apply on the 50% performance.

For each User:

All USRVs from month X not responded to by month X+2 below the 95% standard would attract an incentive payment of £20. If performance was 95% or over, no incentives would be payable.

No further charge would apply in the third month.

All subsequent USRVs from month X not responded to by month X+4 will attract an incentive payment of £30.

All subsequent USRVs from month X not responded to by month X >4 and above will attract an incentive payment of £30 for each subsequent month until responded to.

Where the number of USRVs in a month increases by 50% or more compared to the average number for the previous six months and the increase is more than 20 USRVs, the standard will be increased by 1 month.

All sums received via incentive payments will be allocated to the RbD community as per the current RbD invoicing system (based upon market share for the relevant LDZ for the relevant period) after deducting an administration charge.

#### Ongoing performance incentive framework

The following incentive regime would apply per User:

A is the total USRVs sent to a User in month X.

B is the total USRVs responded to from month X to month X+2.

C is the total USRVs responded to from month X to month X+4.

D is the total USRVs responded to from month X to month X+>4.

E is the incentive payment of £20.

F is the incentive payment of £30.

Payment for month X+2 =  $((0.95 * A) - B) * E$ .

There is no further payment in month X+3.

Payment for month X+4 =  $(A - C) * F$ .

Payment for months X+5 onwards =  $(A - D) * F$ .

#### Incentive Cap

An overall monthly cap for total incentive payments for all Users of £100,000 will apply. Where this value is exceeded, a scaling methodology will be used.

In the event that the cap is exceeded, the amounts payable by Users in respect of that month will be reduced pro rata such that the aggregate of such reduced amounts is equal to the monthly cap.

#### Invoicing methodology

Incentive charges in accordance with the above framework would be calculated and issued to Users on a monthly basis. All such charges would be aggregated by LDZ and credits issued to Users having Smaller Supply Points on a quarterly basis.

To minimise RbD community exposure in the event of non-payment of incentives, all such charges would be allocated once relevant funds have been collected. Funds collected in a given quarter would be allocated to RbD Users within the first month of the following quarter.

To ensure that the costs of administering the regime are funded accordingly, prior to allocating credits, 2% of the charges collected will be deducted to cover the additional costs incurred by Transco of calculating, issuing and collecting charges and of allocating, issuing and paying the corresponding credits.

## 2. Transco's Opinion

Transco's opinion is that this Modification Proposal should be implemented.

A User Suppressed Reconciliation Value ('USRV') is the Network Code term for a Reconciliation validation charge 'filter' failure generated using Meter Readings supplied by a User. The USRV would then be submitted to the User and the User expected to provide a response to Transco in accordance with standards contained within the Network Code Reconciliation Suppression Guidelines.

USRVs are passed to the User for investigation, the current performance of a number of Users to investigate the validity of the underlying data and notify Transco either to process the reconciliation or undertake re-reconciliation is inconsistent and significantly below standard.

This has created a number of significant commercial issues for Users in particular and to a lesser extent Transco:

- There is now a considerable backlog of USRV items (currently in excess of 38,000 items) outstanding with Users, with the backlog increasing and where the reconciliation would result in a User debit, no incentive for Users to both clear such backlogs and implement measures to ensure the timely resolution of ongoing filter failures.
- There is no Reconciliation by Difference ('RbD') incentive for Users with only Larger Supply Point portfolios to resolve their USRVs. Filter failure suppressions submitted to such Users via the NDM reconciliation process remain subject to the documented standards in the guidelines. Failure by Larger Supply Point Users to resolve their USRVs could have a consequential and adverse impact on Users whose portfolio is reconciled using RbD.
- Although the USRV clearance obligations are documented within the Network Code Reconciliation Suppression Guidelines, they are not reinforced through the application of incentives or a similar regime. The number of unresolved filter failures for a particular period will remain suppressed and hence excluded from the next available reconciliation invoice.

Whilst Transco intends to further develop its mechanisms to monitor and report USRV resolution performance, Transco believes that the measures identified within this Modification Proposal, which have been discussed by the Suppressed Reconciliation sub-group of the Supply Point and Billing Workstream, would improve performance of Users in resolving USRVs.

Concerns have been expressed by some Users with respect to the risk of inappropriate User behaviour or 'gaming'. The suggestion is that with respect to a Larger Supply Point a User may internally re-calculate the suppressed value and determine that it is preferable to pay the incentive charge rather than seek resolution of the suppression. Transco accepts that such behaviour is possible but believes that the existing issue would be

mitigated by implementation of this Modification Proposal. As a consequence of its existing monitoring activities, Transco would seek to report any suspicious behaviour and the incentive charge if necessary.

Transco believes that this Modification Proposal would reinforce the contractual obligations placed upon Users to investigate suppressed NDM Reconciliation Invoice Values. It would be consistent with the 'unbundled' NDM meter reading regime and provide increased certainty for Users charged through RbD.

### **3. Extent to which the proposed modification would better facilitate the relevant objectives**

Implementation of an incentive framework would facilitate improvement of User performance in resolving suppressed filter failures by:

- Reinforcing the contractual obligations placed upon Users to resolve USRVs.
- Increasing certainty for Users charged through RbD.
- Ensuring that appropriate and cost reflective charges are applied to Users in respect of their use of Transco's facilities.

The measures identified within this Modification Proposal are consistent with facilitating effective competition between relevant shippers and between relevant suppliers.

### **4. The implications for Transco of implementing the Modification Proposal , including** **a) implications for the operation of the System:**

No such implications have been identified.

#### **b) development and capital cost and operating cost implications:**

Costs would be incurred with respect to implementing and maintaining the performance regime as proposed.

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

To ensure that the costs of administering the regime are funded appropriately, prior to allocating credits to RbD Users, 2% of the charges collected would be deducted to cover the additional costs incurred by Transco of calculating, issuing and collecting charges and of allocating, issuing and paying the corresponding credits.

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

No such consequences have been identified.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal**

Implementation of this Modification Proposal would not increase the level of Transco's contractual risk.

**6. The development implications and other implications for computer systems of Transco and related computer systems of Users**

No changes to Transco's systems have been identified. Transco is not aware of the impact on Users systems.

**7. The implications of implementing the Modification Proposal for Users**

Incentivises prompt and timely investigation of suppressed NDM Reconciliation Invoice Values by Users.

Transco acknowledges that on occasions, inter-User liaison may be necessary to facilitate the resolution of a reconciliation 'filter failure', particularly where a change of supplier has occurred during or subsequent to the reconciliation period. This in turn may give rise to delay in early resolution. Transco is also aware of the increased complexities faced by Users as a consequence of unbundling measures which could cause delay in resolution.

It is important to note, however, that the Reconciliation Suppression Guidelines incorporate performance thresholds ('dead bands') the purpose of which is to mitigate the impact of such difficulties. The thresholds are reflected as part of the performance regime identified within this Modification Proposal and have recently been reviewed and revised as necessary by the Suppression Guidelines sub-group.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party**

No such implications have been identified.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal**

No such consequences have been identified.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

- Incentivises prompt and timely investigation of suppressed NDM Reconciliation Invoice Values by Users.
- Provides increased certainty with respect to Users having Smaller Supply Points.

Disadvantages.

No disadvantages have been identified.

**11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

Representations are now sought.

**12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation**

Implementation of this Modification Proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

This Modification Proposal is not required to facilitate any such change.

**14. Programme of works required as a consequence of implementing the Modification Proposal**

Transco would be required to:

- Establish appropriate administration arrangements to monitor performance and calculate/allocate relevant incentives.
- Further develop the existing performance monitoring regime.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

Transco proposes that this Modification Proposal be implemented with effect from 1 October 2003.

**16. Recommendation concerning the implementation of the Modification Proposal**

Transco believes that this Modification Proposal should be implemented.

**17. Text**

**"8.3 User Suppressed Reconciliation Values"**

**8.3.1 For the purposes of this paragraph 8.3 the "USRV Month" shall be the period of one month commencing on the 21st day of the month.**

8.3.2 The User shall use all reasonable endeavours to ensure that no less than 50% of User Suppressed Reconciliation Values that are Suppressed in a USRV Month are not Suppressed in the immediately following USRV Month.

8.3.3 With effect from the third USRV Month after the User Suppressed Reconciliation Date and subject to paragraphs 8.3.4 and 8.3.5, in respect of each LDZ for each USRV Month the User will pay to Transco the amount (provided such amount is positive) calculated as:

$$(((0.95 * A) - B) * £20) + ((A - C) * £30)$$

where following Individual NDM Reconciliation in USRV Month 'p'

A is the number of User Suppressed Reconciliation Values for the User that are Suppressed in USRV Month 'p':

B is the number of User Suppressed Reconciliation Values for the User that are Suppressed in USRV Month 'p' which are not Suppressed in USRV Month 'p + 2':

C is the number of User Suppressed Reconciliation Values for the User that are Suppressed in any USRV Month 'p' and which remain Suppressed in USRV Month 'p + 4' or any USRV Month after 'p + 4'.

8.3.4 In the event that the number of User Suppressed Reconciliation Values for a User for an LDZ in a USRV Month:-

(i) is greater than 150% of the average for such User in the six previous USRV Months; and

(ii) is no less than 20 User Suppressed Reconciliation Values greater than the average set out in (i) above

paragraph 8.3.3 shall not apply and, subject to paragraph 8.3.5, in respect of such LDZ and for such USRV Month the User will pay to Transco the amount (provided such amount is positive) calculated as:

$$(((0.95 * A) - B) * £20) + ((A - C) * £30)$$

where following Individual NDM Reconciliation in USRV Month 'p'

A is the number of User Suppressed Reconciliation Values for the User that are Suppressed in USRV Month 'p':

B is the number of User Suppressed Reconciliation Values for the User that are Suppressed in USRV Month 'p' which are not Suppressed in USRV Month 'p + 3':

C is the number of User Suppressed Reconciliation Values for the User that are Suppressed in any USRV Month 'p' and which remain Suppressed in USRV Month 'p + 5' or any USRV Month after 'p + 5'.

8.3.5 The amount due from all Users under paragraphs 8.3.3 and 8.3.4 shall not exceed £100,000 for each LDZ and in the event that the aggregate of amounts due from all Users in an LDZ for a USRV Month exceeds such amount, the amounts due shall be reduced pro rata.

8.3.6 Transco shall retain 2% of all amounts received pursuant to paragraph 8.3.3 and 8.3.4 above (as such amounts may be adjusted pursuant to paragraph 8.3.5) and shall credit the remainder to Users:-

(i) after each period of three (3) calendar months and after Transco has received all payment due under paragraphs 8.3.3 and 8.3.4 from all Users for the relevant LDZ;

(ii) pro rata according to the aggregate of the User SP LDZ Aggregate AQ in such three month period.

8.3.7 Amounts payable by the User under paragraph 8 will be invoiced and payable in accordance with Section S. "

Insert in paragraph 1 of Section W:-

"User Suppressed Reconciliation Date": shall be [1st October 2003]"

***Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report***



Signed for and on behalf of Transco.

Signature:

**Sharon McLaughlin**  
**Customer Services Manager**

**Support Services**

Date: