

**CODE MODIFICATION PROPOSAL No 0141A**  
**Revision to the 'User Suppressed Reconciliation Values' Financial Incentives**  
**arrangements**  
**Version 1.0**

**Date:** 18/05/2007

**Proposed Implementation Date:** Immediately upon approval

**Urgency:** Non Urgent

**Proposer's preferred route through modification procedures and if applicable, justification for Urgency**

(see the criteria at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700\\_Urgency\\_Criteria.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf))

Urgent procedures are not sought for this Proposal.

This modification proposal has been raised as an alternative to UNC Modification Proposal 0141 and is therefore requested to follow the same consultation timetable.

**Nature and Purpose of Proposal (including consequence of non implementation)**

UNC Modification Proposal 141 "Revision to the 'User Suppressed Reconciliation Values' Financial Incentives arrangements" raised by British Gas Trading (BGT) proposes to increase the incentive liability payment monthly cap from the existing £100k value to £500k. Whilst generally supportive of initiatives to address the USRV problem, E.ON does not believe that this is an appropriate measure for the following reasons :

- a) It does not seek to target the incentive towards particular categories that have been highlighted as an ongoing concern by the industry, for example aged USRV's.
- b) It presents a penal rather than incentivised solution
- c) It does not acknowledge that there may be genuine reasons why USRV's are occurring, such as miss-matched meter asset data items that could be a consequence of comparatively recent meter competition reforms. These industry data quality issues are being addressed separately, for example by initiatives recently initiated by National Grid Metering where certain meter installations are being audited including site visits to check the physical assets. These issues could have a pronounced affect on new entrants and particularly impact shippers acquiring supply points, through no fault of their own, as the asset data may be flowing between shipper and transporter systems for the first time since RGMA implementation.
- d) Shippers may attempt to take steps to mitigate the penalties by increasing resource towards USRV resolution, however there is no guarantee that xoserve will be able to match this in the short term, both in terms of people or online resource to enable prompt response to queries and their resolution.
- e) The increased 'penal' charges may be viewed as being dis-proportionate compensation for the potential risk being borne by RbD Users. Resolved USRV's will include debits as well as credits to RbD shippers with consequential cash flow benefit.

Therefore E.ON's Proposal 141a retains the £100k cap but introduces a targeted approach, using an age related, progressively increasing charging structure. An illustration of how these

charges would apply to current USRV levels is shown in Appendix A. The chart includes a column showing the effective capped charge per USRV and the date relates to the year that USRV charges were first applied.

The USRV would attract an initial £30 charge in *month X+4* in line with the existing methodology. Subsequent charges of £30 would continue to apply for the subsequent 12 months. After 12 months an increased charge of £50 would apply per month. This process would continue into subsequent years with progressively increased charges applying each twelve months. The tiered charging structure would be:

First 12 months	£30
13 – 24 months	£50
25 -36 months	£100
37 - 48 months	£200
49 - 60 months	£300
61 - 72 months	£400
73 - 84 months	£500

It is proposed that the new methodology will apply to all current USRV's and any arising thereafter.

*For example*

*A USRV that first had charges applied in May 2005 and still outstanding would attract a monthly charge of £100. If this continued to be un-resolved until May 2008, it would then attract a charge of £200. From May 2009 the charge would be increased to £300 and so on.*

In contrast with Mod. Proposal 141 we believe that this will deliver the following benefits :

- 1) It targets those USRV's that have been identified as proving doggedly problematic over an extended time period.
- 2) It retains the £100k cap which given the issue highlighted above provides a proportionate incentive rather than an excessive penalty.
- 3) It allows shippers to focus attention and resource and allows industry processes such as mandatory license requirements to read/inspect meters every two years to take affect.
- 4) In targeting age related USRV's it supports other industry initiatives looking at restricting the invoice billing period. (Review Proposal 126).
- 5) It promotes incremental but sustainable improvement.

The current arrangements, as defined within the Uniform Network Code under section 8.3.6, allow Transporters to retain 2% of all amounts received. These arrangements allow Transporters to cover the costs associated with the administration of the incentive regime.

Modification Proposal 141a incorporates a differential charging structure that may increase administration costs marginally, therefore E.ON recognise that Transporters may incur a small increase in costs and in recognition propose that the retained amount is increased to 2.5%.

### **Consequence of not implementing this Proposal**

The volume of outstanding USRV's have steadily increased since the introduction of Modification Proposal 637 regime in February 2005.

Should this Proposal not be implemented, the existing regime would continue to operate in a manner not in line with its original intentions and RbD Users would continue to suffer from the current level of financial uncertainty associated with age related unresolved items.

Further, it is likely that the number of outstanding USRV items would continue to increase in volume and increase the level of risk to RbD.

### **Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence**

We believe that this modification proposal would further the relevant objectives as defined in SSC A11 of the Gas Transporters Licence as follows:-

By ensuring the correct allocation of energy and transportation charges following revision of Annual Quantities –

- (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

Implementation of this proposal would bring the existing regime in line with the original intentions of Modification Proposal 0637, the revision of the incentive framework would facilitate improvement of User performance in the resolution of suppressed filter failures by:

- Reinforcing the existing contractual obligations placed upon Users and incentive regime, to resolve USRV's in a timely manner.
- Increasing the level of certainty for Users charged through RbD.
- Ensuring that the levels of incentives upon non-RbD Users are adequate and appropriate to resolve USRV's in a timely manner.

### **Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text**

The Proposer considers that this will not have any impact upon systems and will require no system development, as the processes required to deliver the existing regime are already in place and operational.

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** TPD Section E

**Proposer's Representative**

Brian Durber

**Proposer**

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**APPENDIX A**

Source: USRV Statistics March 2007

<i>Initial Year</i>	<i>Total Number</i>	<i>Fee</i>	<i>Uncapped Value</i>	<i>Capped Value</i>	<i>Effective capped charge per USRV</i>
<b>2001</b>	<b>2</b>	£500	£1,000	£78.65	£39.32
<b>2002</b>	<b>55</b>	£450	£24,750	£1,946.55	£35.39
<b>2003</b>	<b>94</b>	£400	£37,600	£2,957.18	£31.46
<b>2004</b>	<b>349</b>	£350	£122,150	£9,606.91	£27.53
<b>2005</b>	<b>2291</b>	£100	£229,100	£18,018.37	£7.86
<b>2006</b>	<b>9970</b>	£50	£498,500	£39,206.28	£3.93
<b>2007</b>	<b>11946</b>	£30	£358,380	£28,186.05	£2.36
<b>Total</b>	<b>24707</b>		£1,271,480	£100,000.00	