

CODE MODIFICATION PROPOSAL No 0141
Revision to the 'User Suppressed Reconciliation Values' Financial Incentives
arrangements
Version 2.0

Date: 30/04/2007

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)

Urgent procedures are not sought for this Proposal.

It is proposed that this modification proposal is referred to the April Distribution Workstream for development for one month and is returned to the May Modification Panel for subsequent process into consultation.

NB: Following discussions at April Distribution Workstream, the proposer has modified this proposal to take account of comments made. In particular, the calculation of the amount to be retained by Transporters has been adjusted. The original figure of 2% of monthly receipts is retained, but is now subject to a cap of 0.5% of the maximum monthly total receipts (as adjusted by this proposal).

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

Reconciliation validation 'filter' failures are generated from meter readings which are deemed by Xoserve to be out of tolerance, and are termed User Suppressed Reconciliation Values (USRV's). For all USRV's received from Xoserve, Users are obliged to provide a full response to Xoserve in accordance with the standards contained within the Uniform Network Code Reconciliation Suppression Guidelines.

Modification Proposal 0637, implemented on 21st February 2005, introduced a regime to incentivise Users to process and clear all USRV's in an efficient and timely manner.

Summary of the current regime:-

All USRV's from month X not responded to by month X+2 below the 95% standard would attract an incentive charge of £20. All subsequent USRV's from month X not responded to by month X+4 would attract an incentive charge of £30. All subsequent USRVs from month X not responded to by month X >4 and above will attract an incentive charge of £30 for each subsequent month until responded to.

Information recently issued by Xoserve identifies that the general level of current performance in this area is consistently below the expected standard, with large volumes of items outstanding. The age analysis within Appendix A, details the number of USRV's outstanding per month as at 20th February 2007.

Although the USRV clearance obligations and incentive regime are documented within the

Uniform Network Code Principal Document and the Uniform Network Code Reconciliation Suppression Guidelines document, it is evident that the current incentive regime does not appear to be working in a sufficiently robust manner, to adequately mitigate the financial risk that unresolved USRV's present to Reconciliation by Difference (RbD).

There is currently a significant backlog of outstanding USRV items, which has increased since the implementation of Modification Proposal 0637. It is clear that the current regime, which incentivises Users to clear USRV items that could result in large debit charges to the User and equal and opposite credits to RbD and to implement measures to ensure the timely resolution of 'filter' failures, is ineffective.

The information provided by Xoserve also shows that the incentive liability payment monthly cap of £100k, which is currently in place, is resulting in the significant scaling down of individual liability payments per outstanding USRV for both the existing £20 and £30 liability payment standards.

The effect of the scaling down of these liability payments is such that the original intention of the regime, as proposed by Modification Proposal 0637, has not been realised and its effectiveness has been significantly impacted.

To address the issue, this modification proposal seeks to increase the incentive liability payment monthly cap from the existing value of £100k to £500k. This increase has been based upon analysis undertaken by Xoserve relating to 'Scaled charges for USRV incentives' see Appendix B. This analysis clearly identifies a significant decrease in scaling factors from January 2006 to December 2006 and further identifies that a monthly cap of at least £400k is required to ensure that the scaling factor is returned to its correct value of 1.

As the trend over the months June 2006 to December 2006 shows the level of unscaled monthly incentives payments increasing from £196k to £364k and evidence that this trend is continuing, we propose that the new proposed monthly cap of £500k is both appropriate and proportionate to ensure that the original intentions of the regime implemented by Mod 637 are achieved and that the requirement for future scaling down does not occur.

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. With the proposed increase to the monthly cap, an amendment to these arrangements are required in order to ensure that the Transporters' revenue associated with this service continues to be appropriate and cost reflective.

This Modification Proposal therefore proposes that revenue received by Transporters under the current arrangements be capped to a total of 0.5% of the monthly cap.

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 created by unresolved items.

Due to the significant scaling down of monthly incentive payments, the existing regime does not currently provide adequate incentives upon non-RbD users to resolve outstanding USRV's, this lack of incentive would therefore remain.

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.
- Increasing the level of certainty for Users charged through RbD.
- Ensuring that the levels of incentives upon non-RbD Users are adequate 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

Chris Wright (British Gas Trading Ltd)

Proposer

Chris Wright (British Gas Trading Ltd)

APPENDIX A

Source: USRV Statistics – February 2007 issued by Xoserve via e-mail on 28th March 2007

Reporting Month			
Number of Outstandings Filter Failures			
Sent Month	DEC	JAN	FEB
20/02/2007			6679
20/01/2007		4670	2613
20/12/2006	6042	3759	2192
20/11/2006	4009	2486	1914
20/10/2006	2778	2091	1541
20/09/2006	1920	1459	1196
20/08/2006	1442	1165	969
20/07/2006	1495	1227	1025
20/06/2006	1063	844	658
20/05/2006	694	603	482
20/04/2006	687	608	485
20/03/2006	732	648	553
20/02/2006	457	411	345
20/01/2006	332	292	254
20/12/2005	421	364	306
20/11/2005	678	596	502
20/10/2005	275	241	223
20/09/2005	409	360	296
20/08/2005	299	283	245
20/07/2005	250	237	206
20/06/2005	195	186	164
20/05/2005	153	151	140
20/04/2005	117	112	100
20/03/2005	102	101	85
20/02/2005	109	107	105
20/01/2005	72	72	66
20/12/2004	70	66	58
20/11/2004	58	57	53
20/10/2004	57	54	47
20/09/2004	26	26	25
20/08/2004	32	32	29
20/07/2004	30	29	26
20/06/2004	30	30	29
20/05/2004	13	12	10
20/04/2004	14	14	13
20/03/2004	7	7	6
20/02/2004	16	15	13
20/01/2004	24	24	24
20/12/2003	16	13	12
20/11/2003	14	13	11
20/10/2003	18	17	17
20/09/2003	21	19	18
20/08/2003	9	9	7
20/07/2003	2	1	1

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20/06/2003	9	8	7
20/05/2003	4	4	4
20/04/2003	2	2	2
20/03/2003	5	3	3
20/02/2003	8	8	8
20/01/2003	6	5	5
20/12/2002	6	6	6
20/11/2002	17	16	15
20/10/2002	8	8	7
20/09/2002	1	1	1
20/08/2002	13	13	13
20/07/2002	2	2	2
20/06/2002	15	13	12
20/05/2002	0	0	0
20/12/2001	1	1	1
20/11/2001	1	1	1

APPENDIX B

Scaled Charges for USRV Incentives

Month	Unscaled Incentives	Scaling Factor for £100k Cap (ACTUAL)	Scaled Incentives	Scaling Factor for £200k Cap	Scaled Incentives	Scaling Factor for £300k Cap	Scaled Incentives	Scaling Factor for £400k Cap	Scaled Incentives
Jan-06	£226,977.00	0.44057327	£100,000.00	0.88114655	£200,000.00	1.00000000	£226,977.00	1.00000000	£226,977.00
Feb-06	£204,941.08	0.48794531	£100,000.04	0.97589024	£200,000.00	1.00000000	£204,941.08	1.00000000	£204,941.08
Mar-06	£205,273.81	0.48715376	£99,999.91	0.97430841	£200,000.00	1.00000000	£205,273.81	1.00000000	£205,273.81
Apr-06	£196,789.47	0.50815590	£99,999.73	1.00000000	£196,789.47	1.00000000	£196,789.47	1.00000000	£196,789.47
May-06	£226,044.98	0.44238979	£99,999.99	0.88477966	£200,000.00	1.00000000	£226,044.98	1.00000000	£226,044.98
Jun-06	£196,960.84	0.50771473	£99,999.92	1.00000000	£196,960.84	1.00000000	£196,960.84	1.00000000	£196,960.84
Jul-06	£230,734.79	0.43339762	£99,999.91	0.86679603	£200,000.00	1.00000000	£230,734.79	1.00000000	£230,734.79
Aug-06	£265,006.68	0.37734852	£99,999.88	0.75469796	£200,000.00	1.00000000	£265,006.68	1.00000000	£265,006.68
Sep-06	£287,842.68	0.34741161	£99,999.89	0.69482399	£200,000.00	1.00000000	£287,842.68	1.00000000	£287,842.68
Oct-06	£319,696.00	0.31279716	£100,000.00	0.62559431	£200,000.00	0.93839147	£300,000.00	1.00000000	£319,696.00
Nov-06	£338,465.53	0.29545065	£99,999.86	0.59090212	£200,000.00	0.88635318	£300,000.00	1.00000000	£338,465.53
Dec-06	£364,627.58	0.27425287	£100,000.16	0.54850486	£200,000.00	0.82275729	£300,000.00	1.00000000	£364,627.58

Source: Presentation provided by Xoserve to the Distribution Workstream on 22nd March 2007