

Joint Office of Gas Transporters
0155: 'User Suppressed Reconciliation Values' revised incentive arrangements
CODE MODIFICATION PROPOSAL No 0155

'User Suppressed Reconciliation Values' revised incentive arrangements

Version 1.0

Date: 13th June 2007

Proposed Implementation Date: Immediately upon approval

Urgency: Non-Urgent

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

Urgent procedures are not sought for this Proposal.

It is proposed that this modification proposal is referred to the June Distribution Workstream, for development for three months, and is returned to the September Modification Panel for subsequent progression to consultation.

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

Reconciliation validation 'filter' failures are generated from financial adjustments, resulting from the submission of meter readings, which are deemed to be out of tolerance under the current process as defined by the Uniform Network Code Reconciliation Suppression Guidelines and are subsequently termed as User Suppressed Reconciliation Values (USRVs).

In February 2005, Modification Proposal 0637 implemented a regime to incentivise Users to process and clear all USRVs in an efficient and timely manner.

Following the implementation of modification proposal 637, the number of outstanding USRVs initially reduced, however this trend was short lived with USRV levels soon returning to and passing original levels.

Information issued by xoserve identifies that there is currently a significant backlog of outstanding USRV items and that the general level of current performance in this area is consistently below the expected standard.

It is evident from this data that the incentive regime in its current form is not proving to be effective, with one element being the effect of the monthly cap has significantly scaled down and devalued the level of the incentive liability payments.

Modification Proposal 141 was raised on 30th April 2007 and simply seeks to address the effect of the scaling down of the liability payments by amending the value of the monthly cap and ensuring that the process is, in future, operated in accordance with the original intentions of modification proposal 637.

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However, in addition to the measures sought by modification proposal 0141, there is a general industry consensus that a wider review of the existing USRV incentive arrangements is required, to ensure that they remain fit for purpose and adequately mitigate the financial risk that unresolved USRVs present to Reconciliation by Difference (RbD).

Further, discussions have taken place under the remit of modification review group 126, that have potential implications to the existing USRV process and which need to be understood and considered.

This modification proposal seeks to introduce revised USRV arrangements, which will:

- a) ensure that appropriate incentives are in place to ensure timely resolution of USRVs.
- b) ensure that appropriate measures are introduced to remove the existence of any potential perverse incentives for Users not to undertake resolution activity.
- c) reduce RbD from existing unacceptable levels of financial uncertainty.
- d) safeguard RbD from any financial exposure related to the outcome of modification review group 126.

Options for consideration

British Gas Trading has considered three options, detailed below, and suggests that these options are considered during development of this modification proposal.

Option 1

Release the original reconciliation value at a pre-determined point in the process e.g. after 48 months, should the USRV remain outstanding at this point.

This would not be a suitable approach as it would potentially cause significant energy balancing issues and impacts to Shippers. There would also be the potential to create perverse incentives on Shippers to manipulate the process to resolve credits and ignore debits.

Option 2

Introduce backstop obligations upon Gas Transporters to resolve USRVs in the absence of Shipper resolution, at a pre-determined point in the process.

There are concerns over the ability of Gas Transporters to resolve USRVs where Shippers have already failed. Many outstanding filter failures would still require Shipper involvement to enable resolution i.e. meter asset queries and would potentially remain outstanding should the Shipper choose not to co-operate.

This option would also provide Gas Transporters with significant additional workload increases, although this could be addressed via a User Pays type mechanism. There are

0155: 'User Suppressed Reconciliation Values' revised incentive arrangements also issues relating to site access and the creation of potential perverse incentives on Shippers to do nothing with regard to USRV resolution and rely solely upon the backstop obligations.

Option 3

Development of revised arrangements, to appropriately incentivise Shippers to clear USRVs in a timely manner.

A strawman for this option is detailed below:

- Continue with the existing regime with regard to the X+2 months/X+4 months (£20/£30) incentive arrangements.
- At X+12 months, introduce a ratcheting of incentive payments to an increased level (to be agreed), capped (revised cap mechanism/limit required)
OR
introduce an incentive payment which relates to a percentage of the original reconciliation value (capped).
OR
introduce an incentive payment which is derived from another appropriate source.
- At X+24 months, X+36 and X+48 further ratcheting of incentive payments OR increased percentages applied of original reconciliation values (capped).
OR
introduce an incentive payment which is derived from another appropriate source.
- At X+48 (dependant upon Mod 126 outcome), a notice is issued to the Shipper advising that the USRV will timeout in 12 months time and the implications of such.
- At X+60 (dependent upon Mod 126 outcome), timeout of USRV occurs. At this point a final incentive payment would be payable for all outstanding USRVs (regardless of whether the original reconciliation value was a debit or a credit). This final charge could be charged at a standard unit rate, as a percentage of the original reconciliation value or at a value which is derived from another appropriate source.

Note: the timings stated above could be amended as appropriate i.e. it may be deemed more appropriate for timeout to take place earlier than X+60 or ratcheting to be more/less frequent.

- To support the attached, increased obligations upon Gas Transporters are recommended, in order to provide more detailed reporting of industry performance and the value of original reconciliation values.

Implementation Arrangements

It is proposed that implementation of any revised arrangements would be undertaken as follows:

- The new regime would commence immediately for all new USRVs issued following the formal date of implementation.
- A period of six months notice would be provided for all 'in-flight' outstanding USRVs, before the new arrangements would be applicable to these filter failures.
- Consideration needs to be given to the implications of existing old USRVs and the potential implementation of any new arrangements from the outcome of Mod 126 discussions i.e. a number of USRVs may potentially timeout before any revised USRV arrangements are in place.

Further areas for consideration

- Consideration needs to be given to the existing USRV arrangements where the clock is reset due to a failed attempt at resolution.
- The levels of the Daily TRE charge tolerances, as detailed within the Reconciliation Suppressed Guidelines, should be reviewed to assess whether they remain appropriate.

Consequence of not implementing this Proposal

The volume of outstanding USRVs 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 an ineffective manner and RbD Users would continue to suffer from the current level of financial uncertainty which is created by unresolved items.

The existing, ineffective incentives upon non-RbD Users to resolve outstanding USRVs, would remain.

Further, without reform of the existing arrangements, it is likely that the number of outstanding USRV items would continue to increase in volume and increase the level of risk to RbD.

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Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 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 revise the USRV incentive framework and would facilitate improvement of User performance in the resolution of suppressed filter failures by:

- Reinforcing the existing contractual obligations placed upon Users and the incentive regime, to resolve USRVs.
- Increasing the level of certainty for Users charged through RbD and addressing any issues resulting from modification proposal 126 discussions.
- Ensuring that the levels of incentives upon non-RbD Users are adequate to resolve USRVs 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 believes that this proposal will have a relatively minor impact upon systems and processes, which will need to be considered.

Code Concerned, sections and paragraphs

Uniform Network Code Transportation Principal Document TPD Section E and the Uniform Network Code Reconciliation Suppression Guidelines.

Proposer's Representative

Chris Wright
British Gas Trading Ltd

Proposer

Chris Wright
British Gas Trading Ltd