

URGENT MODIFICATION PROPOSAL

SHORT TITLE: Additional Incentive Structure relating to implementation of Reconciliation by Difference

DATE: 5 December 1997

PROPOSED IMPLEMENTATION DATE: As soon as Possible

MODIFICATION TYPE: URGENT

REASON FOR URGENCY: In order to initiate the process from the date of Implementation of Reconciliation by Difference.

JUSTIFICATION:

Modification number 194 seeks to implement Reconciliation by Difference (RBD) from the next phase of DCIII. Under the RBD proposal, supply points with an Annual Quantity of less than 73,000 kWh (2,500 Therms) will not have their consumption reconciled to a meter reading but will be reconciled in aggregate by Local Distribution Zone (LDZ).

The Implementation of Modification 194 will have a number of implications for the industry:-

1. Shippers to smaller supply points (<73,200 kWh) will be exposed to deemed reconciled consumption not being equal to the actual consumption of individual sites, particularly if there is an element of portfolio bias.
2. There is a possibility that shippers to these supply points may experience significant cash flow problems if there is under-deeming of the I & C market.
3. Quality of data will become increasingly important (particularly in the I & C market).
4. Transco can expect to benefit from significant cost savings. It had been agreed at an early stage that this would benefit the community. They have undertaken to direct this resource at improvement of their service to customers. The proposed structure seeks to place further incentives upon Transco in order to ensure that there is no degradation of service whilst manual interim systems for RBD are maintained and their resources are focused upon issues identified as the most important by the community:-

- * Maintenance of accurate AQ's
- * timely reconciliation of Industrial & Commercial supply points
- * Resolution of Queries

CONSEQUENCES OF NOT MAKING THIS CHANGE:

If Modification 194 'Reconciliation by Difference' is implemented:-

1. Shippers to smaller supply points will potentially be exposed to significant risk. The proposed incentives will provide the industry with a degree of confidence that these risks will be minimised.
2. The proposal seeks to ensure that resources are correctly focused in areas which, to date, has not been included within the Liabilities package. Without such incentives, Transco's performance in Query Resolution may remain at an unacceptable standard.

AREA OF NETWORK CODE CONCERNED:

Network Code Principal Document Section E, Section G, Section M, Section S.

NATURE OF PROPOSAL:

The proposal targets the main areas of concern raised by the industry in relation to RBD. Primarily, these are AQ's and Reconciliation in the I & C market. The areas of concern remain valid once RBD is established and appropriate standards of service should be applied.

More generally, those areas of service which are not covered by the current structure but give rise to major concern of shippers, and the community at large need not be targeted, i.e. Query Resolution.

This proposal includes the re-assessment of the current Performance Targets within the existing Standards of Service structure and the introduction of five additional areas of incentives.

Additional Performance Incentives

The five categories are:-

1) Support of the AQ Review Retrospective process

An agreement has been reached through discussions of Review Group 121 on the correction of the erroneous AQ's created for October 1997 implementation. The process established allows shippers to appeal erroneous AQ's, Transco processing these appeals within 5 days, shippers then confirming the revised AQ to be in position by 1 March. A critical step in this process is the turnaround time for Transco to deal with the appeal. It is proposed that they be incentivised as follows:-

For each appeal not processed in 5 days or less [£100]

For each appeal unprocessed by the latest date (26 January) for confirmation to be effective by 1 March 1998 (if appeal is submitted more than 5 days previously [£100]

2) Support of the AQ Review prospective process

The discussions of the structure of the prospective AQ Review process are underway at present. It is apparent that there is wide support for at least one more complete annual review of AQ's. Although this will have a different structure to the 1997 process, it is likely that Transco will, of necessity, play a major role in data collection, calculation, and agreeing/policing of correct AQ setting. It is proposed that incentive payments are attached to this process:- [defined by AQ group].

3) Application of Meter Reads to Reconciliation of consumption

Under a system of RBD the application of meter reads to reconcile consumption for the I & C market is critical to ensure that these adjustments are effected as soon as is possible and the exposure of the RBD shippers to adjustment is minimised.

An Incentive structure is proposed:-

In the event that a reconciliation gives rise to a Gas Reconciliation Quantity (GRE) amount in excess of [£1,000], the reconciliation will be subject to validation and will be placed in the suppressed pot whilst this is done. This validation will take place

prior to issue and the reconciliation amounts will appear on the relevant shippers invoice in the following month.

If this timescale is not met the shipper will receive [£100]

All other reconciliations will be applied in the current month, any failure will result in a payment each month for each outstanding reconciliation item of [£100]

Datalogger Reconciliation - in order that the exposure to RBD shippers is minimised system functionality for datalogger (DM and NDM) reconciliations must be in place prior to RBD commencement. If this exercise is not completed by [27 February] Transco will pay to RBD shippers interest on the relevant proportion of the entire datalogger reconciliation sector, if a credit, at [base + 3%] until this functionality is present.

4) Query Management and Query Response

A Review Group established under Modification 122 has been considering the structure of Query Management, to date it has not considered incentives. It is considered appropriate that Query Resolution should be incentivised and it is proposed that:-

Any data adjustment arising from a query raised will be made within 10 days of the date the query was received by Transco,

failure will result in a payment of [£50]

Any financial adjustment caused by the resolution of the query will be made to the next relevant invoice issued to the respective shipper,

failure will result in a payment of [£100]

Any query that is initially said by Transco to be invalid which upon further investigation transpires to be a valid dispute

will result in a payment of [£100]

5) Monitoring of RBD Sectors

The RBD sectors should not reach significant financial amounts. If large amounts are experienced it is an indication that there is an inherent bias between the Domestic and the Industrial & Commercial markets. It is accepted that the responsibility for this situation is not entirely with Transco, but it is indisputable that they play a major part in the process, particularly with the current AQ process. It is proposed that a ceiling of [£100,000] be applied to each of the RBD sectors and if this level is exceeded, Transco will pay interest on the total credit amount of RBD reconciliation paid to shippers at [base + 3%]

Re-assessment of current performance targets

A Review Group established under Modification Proposal 0072 has carried out much detailed work in reworking the Incentives Package. Throughout this process there has been a recognition on the standard of performance which is reasonable to expect Transco to deliver with their current resources. It is accepted that the implementation of RBD will relieve Transco of a significant workload and these performance targets must be reviewed to take account of this.

It is proposed that, following implementation of their current proposals, the review group is reconvened to re-consider the level of these performance targets.

PURPOSE OF PROPOSAL

To incentivise Transco to perform to an acceptable level on a consistent basis and reflect the reduction of their overall workload following implementation of RBD.

PROPOSED TEXT: Transco to provide

IDENTITY OF PROPOSER REPRESENTATIVE:

PROPOSER: Mike Young

SIGNATURE:

POSITION: Assistant Transportation Manager

COMPANY: ALLIANCE GAS LIMITED

NB Although Alliance Gas is proposing this Modification it has been prepared with the involvement and general support of a number of Shippers. These include:-

- Agas
- BP Gas Marketing
- British Gas Trading
- Eastern Gas
- Enron
- Quadrant
- Texaco

MODIFICATION PROPOSAL REFERENCE: 0202

DATE RECEIVED: 08/12/97