

CODE MODIFICATION PROPOSAL No. XXXX
“Revision of USRV Financial Incentives arrangements”
Version 0.1

Date: 14th March 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.

[This topic was discussed within the Distribution Workstream at the [DATE] meeting. It is requested that this Modification Proposal goes to the Distribution Workstream for further development.]

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

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

For USRVs passed to the User for investigation, the current performance to investigate the validity of the underlying data and notify Xoserve either to release the USRV or to process a re-reconciliation is consistently below standard. Although the USRV clearance obligations and incentive regime are documented within the Uniform Network Code Reconciliation Suppression Guidelines, the current liability regime does not sufficiently mitigate the risk that unresolved USRVs present to the RbD.

There is a backlog of USRV items outstanding with Users, with the backlog increasing and little incentive for Users to clear USRV items, which would result in large debit charges to the User or implement measures to ensure the timely resolution of ongoing filter failures.

There is currently no Reconciliation by Difference (RbD) incentive for Users with only Larger Supply Point portfolios to resolve large debit items within their outstanding USRV's.

Filter failure suppressions submitted to such Users via the NDM reconciliation process remain subject to the documented standards. Failure by Larger Supply Point Users to resolve their USRVs has a consequential and adverse impact upon RbD Users.

This Modification Proposal would reinforce the contractual obligations placed upon Users to investigate suppressed NDM Reconciliation Invoice Values. It would also provide increased certainty for Users (charged through RbD).

The proposal seeks to reduce the number of unresolved suppressed NDM Reconciliation Values through the revision of the existing financial incentive performance regime, as follows:

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 payment of £20. All subsequent USRV's 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.

In addition to the existing regime, the following is proposed:

1. Interest

- 1.1 For all USRV's which are included in the X>4 pot and are subsequently released as a debit charge to the User, debit interest will be calculated at [Bank Rate +2%].
- 1.2 Debit interest will only apply from the date the USRV was first notified, to the date in which the corresponding debit was invoiced to the User.
- 1.3 Credit interest will not be accrued.

2. Back Stop

- 2.1 Where a User has failed to submit a response to the USRV to Xoserve by X+12, Xoserve will generate a reconciliation value between the first read contained in the USRV and the next actual read loaded by the User after the second suppression read.
- 2.2 Where the newly calculated reconciliation value would result in a debit to the User, Xoserve will notify the User in the next USRV period [X+13] that the value will be released in the subsequent USRV period [X+14].
- 2.3 Where no subsequent suppression read is available and the original USRV value was a debit charge Xoserve will notify the User at [X+13] that the original value will be released at [X+14].
- 2.4 Where the User responds to the USRV between [X+13] and [X+14] causing the USRV to be cleared any newly calculated reconciliation values by Xoserve will be disregarded and will not appear on the Reconciliation Invoice.

2.5 Debit interest will be calculated in accordance with 1.1.

3. Invoicing methodology

- 3.1 Incentive charges and interest payments in accordance with the above framework would be calculated and issued to Users on a monthly basis. All such charges and interest payments would be aggregated by LDZ and credits issued to Users having Smaller Supply Points on a quarterly basis.
- 3.2 To minimise the exposure to the RbD community 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.
- 3.3 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 Xoserve of calculating, issuing and collecting charges and of allocating, issuing and paying the corresponding credits.

Consequence of not implementing this Proposal

The volume of outstanding USRV's have not significantly reduced since the introduction of Modification Proposal 637 regime in February 2005.

Should this Proposal not be implemented, RbD Users would continue to suffer from the current level of uncertainty created by unresolved items.

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, the existing arrangements allow a degree of selective resolution, which would also remain in place, e.g. in certain scenarios it is more economic to leave the USRV unresolved.

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 an enhanced incentive framework would facilitate improvement of User performance in 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 have a minimal impact upon systems and require no system development. The processes required to deliver the existing regime are already in place and implementation of this Modification Proposal would create a modest amount of process amendment and additional calculations to perform.

Code Concerned, sections and paragraphs

Uniform Network Code Transportation Principal Document, TPD Section E

Proposer's Representative

Chris Wright
British Gas Trading Ltd

Proposer

Chris Wright
British Gas Trading Ltd

Signature

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