

Review Group Report
Review Proposal Reference Number 0158
"Review of User Suppressed Reconciliation Values' incentive arrangements"

Verion1.0

This Review Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Review Group is that the UNC should be modified to incentivise the resolution of USRVs in a more timely manner and to introduce a backstop mechanism within the USRV process to prevent suppressed reconciliation from 'falling off' after the UNC0152V cut off date is implemented.

Appendix 1 contains the Terms of Reference

Appendix 2 provides a summary of the data presented by xoserve to the Review Group

1. Review Proposal

BGT raised Review Proposal 0158, for which the Terms of Reference are in Appendix 1

2. Review Process

In accordance with the Modification Rules, at its meeting on 19 July 2007 the Modification Panel determined that the Review Proposal should be referred to a Review Group for progression. This Review Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

3. Areas Reviewed

The Review Group discussions focussed on the following areas:

a) xoserve USRV reports

The Review Group considered the reports which are currently produced from Conquest and concluded that the current reporting regime does not need to be changed.

The following reports were discussed:

- Number of filter failure per incentive band
- Number of filter failures per Shipper per month
- Number of filter failures resolved at 50% and 100% targets

b) existing incentives and possible improvements to them

The Review Group considered the existing incentive regime and agreed that as most USRVs could be resolved within 18 months an increased incentive charge at that time may incentivise earlier action to be taken. The incentive charge ideally would be

a substantial amount which would encourage Shippers to request assistance before that time or accept a substantial payment.

There was some concern that a tiered incentive structure with no change to the cap would likely to increase charges for Shippers with old USRVs and reduce charges for Shippers with more recent USRVs. Adjusting the cap would incentivise appropriate behaviour throughout the range of outstanding USRVs. Although a tiered incentive structure along with an increased cap may be too penal and Ofgem would want an incentive charge that reflected the risk.

The group believed that the introduction of any interest charge incentive would further complicate an already complicated process and therefore discounted this idea. The possibility of a "Name and Shame", list was also discussed but discarded. It was not apparent who would receive any Shipper explanation for long outstanding USRVs and it was unclear who would be the governing body in such a regime.

The group considered that the enhanced incentives introduced by UNC Modification Proposal 0141 should also encourage the right behaviour, but there was general support for further development of a tiered incentive regime which would include a review of the incentive cap.

c) the importance of having a backstop mechanism in view of the imminent implementation of UNC0152V

The group considered that there is now a requirement to have a 'backstop' within the USRV process to prevent suppressed reconciliation from 'falling off' as the implementation of UNC0152V will introduce a cut-off date.

The group examined how the obligation to resolve USRVs could be managed using a commercial arrangement, followed by a substantial incentive charge for USRVs that are not resolved before the UNC0152V reconciliation cut-off.

Under this regime, Shippers could voluntarily commission the commercial service for a lesser charge before the USRV is automatically provided to xoserve for resolution with a much greater penalty charge. This would require a backstop mechanism involving a Transporter led resolution system via xoserve, with xoserve obtaining meter asset details and meter reads and undertaking reconciliation with this information, at a cost to the Shipper. If two Shippers are involved the costs and reconciliation would be divided appropriately. This system would be very similar to that which Transco offered pre Network Sales to resolve USRVs.

Due to the concern with the Transporters having an obligation to resolve USRVs without any consideration for cases where it was not possible to do so, particularly if issues involve a number of suppliers or where there is missing data, there needs to be a point where agreement is made on the appropriate reconciliation for irresolvable USRVs. This may involve using a neutral reconciliation in some cases and would need to be binding.

Other factors to consider are the longer a Shipper waits before passing a USRV to a Transporter to address, results in the USRV becoming harder to resolve. Therefore perhaps an age charge should apply. However to balance this the incentive charge could be frozen once it has been passed to xoserve as the Shipper would no longer have control over its resolution.

It was agreed that any service provided through the UNC would be a chargeable service.

It was also considered that there should be inclusion of an agreement for inter Shipper data to be supplied by xoserve to assist resolution.

4. Recommendations

The Modification Panel is invited to accept this report and the recommendations that:

1. No further work is required in respect of the Review Proposal
2. A Modification Proposal should be raised to develop detailed business rules for a two fold solution to incentivise the resolution of USRVs in a more timely manner and to introduce a backstop mechanism within the process.

Appendix 1 Terms of Reference

Purpose

A Uniform Network Code Review Group is required to review the current UNC incentives in respect of User Suppressed Reconciliation Values.

Background

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 UNC Reconciliation Suppression Guidelines and are subsequently termed 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 0637, the number of outstanding USRVs initially reduced. However, this trend was short lived with USRV levels soon returning to and passing the pre Modification Proposal 0637 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 standard which might reasonably be expected if the incentives were working effectively.

It is, therefore, 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 - which significantly scales down and so devalues the level of the incentive liability payments. Modification Proposal 0141 was raised on 30th April 2007. This is seeking to reduce the scaling down of the liability payments by increasing the value of the monthly cap.

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 Review Group 0126, that have potential implications for the existing USRV process and which would benefit from being understood and considered.

Scope

Identifying and considering high level options for regime change which could incentivise timely resolution of USRVs..

Deliverables

The Group is asked to consider the existing USRV arrangements and recommend revised arrangements, which will:

- Ensure that appropriate incentives are in place to encourage timely resolution of USRVs.

- Ensure that appropriate measures are introduced to remove the existence of any potential perverse incentives for Users not to undertake resolution activity.
- Be expected to reduce RbD from the existing levels of financial uncertainty.
- Safeguard RbD from any financial exposure related to the outcome of Review Group 0126.
- Identify any changes required to the UNC Reconciliation Suppression Guidelines.
- Identify how USRVs should be reported in future (on an anonymous basis, or by User).

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above, and may include a draft UNC Modification Proposal.

Limits

The Review Group will restrict its considerations to changes required to the Uniform Network Code

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Composition

The Review Group will comprise the following members:

Name	Organisation
Julian Majdanski (Chair)	Joint Office
Helen Cuin (Secretary)	Joint Office
Mitch Donnelly	British Gas Trading
Alistair Watson	Scottish Power
Bali Dohel	Scotia Gas Networks
Brian Durber	E.ON UK
Chris Warner	National Grid Distribution
Karen Kennedy	Scottish Power
Linda Whitcroft	Xoserve
Mark Jones	Scottish and Southern
Richard Street	Statoil
Sally Harling	Corona Energy
Samuel Lydgate	Total Gas & Power
Scott Miller	Scottish Power
Sham Afonja	RWE Npower
Simon Trivella	Wales & West Utilities
Stefan Leedham	EDF Energy
Sue Davies	Wales & West Utilities
Tim Davis	Joint Office

Others may attend any meeting subject to the agreement of the Chair, consistent with the Chairman's Guidelines.

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Section E8.
- UNC Reconciliation Suppression Guidelines
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.
 - Industry Codes of Practice as relevant.

Timetable

It is proposed that a maximum period of six months be allowed to conclude this review, with a final Review Group Report presented to the UNC Modification Panel no later than January 2008.

Note:

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

Appendix 2 data presented by xoserve

Reconciliation Invoice August 07

Total number of adjusted variance periods	13,897
Debit Reconciliation Total	£2,567,172.78
Credit Reconciliation Total	£2,797,609.92
Total Value of all Reconciliation periods	-£230,437.14
Total length of Reconciliation variances	978,086 days
Average Reconciliation charge	-£0.24 /Day
Average Reconciliation charge	-£16.58 /variance period

Notes

This data includes consumption adjustments as there was no way to distinguish them from filter failures in the data

This data is based on variance level data (1 reconciliation may have several variance periods)

Original Distribution of Variance periods

(From meeting 26 September 07)

Credit/Debit	Charge Banding	No. of Variances
Credit	>£20k	21
Credit	>£15 and <=£20k	8
Credit	>£10k and <=£15k	23
Credit	>£5k and <=£10k	44
Credit	>£0k and <=£5k	7,578
Debit	>£0k and <=£5k	6,031
Debit	>£5k and <=£10k	35
Debit	>£10k and <=£15k	14
Debit	>£15k and <=£20k	6
Debit	>£20k	19
Total		13,779