

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0637
"Introduction of a financial incentive performance regime for the resolution of User Suppressed Reconciliation Values (USRVs)"
Version 1.0

Date: 13/06/2003

Proposed Implementation Date: 01/10/2003

Urgency: Non-Urgent

Justification

Reconciliation validation 'filter' failures generated from meter readings obtained under arrangements other than those which are the responsibility of Transco and are covered by M3.6 or M4.1 are termed User Suppressed Reconciliation Values (USRVs). For all USRVs received from Transco, Users are obliged to provide a full response to Transco in accordance with standards contained within the 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 Transco either to release the USRV or to process a re-reconciliation is consistently below standard.

The scenario is problematic for the following reasons:

- Although the USRV clearance obligations are documented within the Network Code Reconciliation Suppression Guidelines, they are not reinforced through the application of incentives or a similar liability regime. The number of unresolved filter failures for a particular period will remain suppressed and hence excluded from the next available reconciliation invoice.
- There is now a considerable backlog of USRV items outstanding with Users, with the backlog increasing and no incentive for Users to both clear their backlogs and implement measures to ensure the timely resolution of ongoing filter failures.
- There is no Reconciliation by Difference (RbD) incentive for Users with only Larger Supply Point portfolios to resolve their USRVs. 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 could have a consequential and adverse impact upon RbD Users.

This Modification Proposal, which has been developed by the Suppressed Reconciliation Sub-group of the Supply Point and Billing Workstream, would reinforce the contractual obligations placed upon Users to investigate suppressed NDM Reconciliation Invoice Values. It would be consistent with the 'unbundled' NDM meter reading regime and provide increased certainty for Users (charged through RbD).

Nature of Proposal

To reduce the number of unresolved suppressed NDM Reconciliation Values through the implementation of a financial incentive performance regime, as follows:

USRV Backlog

All items in the suppressed pot as at the implementation date will be assessed for the 95% standard with the first date for potential incentives being the 20th of the second month following implementation. At this time, the backlog will be analysed and any items which are over four months old will incur an incentive payment of £30. On the 20th of each subsequent month, a charge of £30 would apply to each item in the backlog over 4 months old at that date.

Ongoing performance incentive.

For all USRVs received from Transco between the 21st of a month and 20th of the following month, (period X), each User shall provide a full response to Transco for 50% of such queries by the 20th of month X + 1 and for 95% of such USRVs by the 20th of month X + 2.

No incentive would apply on the 50% performance.

For each User:

All USRVs from month X not responded to by month X+2 below the 95% standard would attract an incentive payment of £20. If performance was 95% or over, no incentives would be payable.

No further charge would apply in the third month.

All subsequent USRVs 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.

Where the number of USRVs in a month increases by 50% or more compared to the average number for the previous six months and the increase is more than 20 USRVs, the standard will be increased by 1 month.

All sums received via incentive payments will be allocated to the RbD community as per the current RbD invoicing system (based upon market share for the relevant LDZ for the relevant period) after deducting an administration charge.

Liability framework.

The following incentive regime would apply per User:

A is the total USRVs sent to a User in month X.

B is the total USRVs responded to from month X to month X+2.

C is the total USRVs responded to from month X to month X+4.

D is the total USRVs responded to from month X to month X+>4.

E is the incentive payment of £20.

F is the incentive payment of £30.

Payment for month X+2 = $((0.95 * A) - B) * E$.

There is no further payment in month X+3.

Payment for month X+4 = $(A - C) * F$.

Payment for months X+5 onwards = $(A - D) * F$.

Incentive Cap

An overall monthly cap for total incentive payments of £100,000 will apply. Where this value is exceeded, a scaling methodology will be used.

In the event that the cap is exceeded, the amounts payable by Users in respect of that month will be reduced pro rata such that the aggregate of such reduced amounts is equal to the monthly cap.

Invoicing methodology

Incentive charges in accordance with the above framework would be calculated and issued to Users on a monthly basis. All such charges would be aggregated by LDZ and credits issued to Users having Smaller Supply Points on a quarterly basis.

To minimise RbD community exposure 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.

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 Transco of calculating, issuing and collecting charges and of allocating, issuing and paying the corresponding credits.

Purpose of Proposal

To improve User performance in resolving suppressed filter failures through the implementation of an incentive framework which would:

- Reinforce the contractual obligations placed upon Users to resolve USRVs.
- Increase certainty for Users (charged through RbD). Such a measure is consistent with facilitating effective competition between relevant shippers and between relevant suppliers.
- Ensure that appropriate and cost reflective charges were applied to Users in respect of their use of Transco's facilities.

Consequence of not making this change

- The existing backlog of unresolved suppressions may increase over time with no incentive for USRVs to be investigated.
- Users having Smaller Supply Points would be detrimentally impacted by the likely increase in the number of suppressed items.
- The resource requirement to address this issue may become more demanding over time.
- Delay to the application of accurate and cost reflective charges.

Area of Network Code Concerned

Section E8

Proposer's Representative

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Signature

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