

22/11/2004

Dear Colleague,

**NOTICE OF IMPLEMENTATION
MODIFICATION PROPOSAL No: 0637**

"Introduction of a financial incentive performance regime for the resolution of User
Suppressed Reconciliation Values (USRVs)"

Please note that Modification Proposal No 0637 will be implemented with effect from 06:00 hours on 21/02/2005. The Final Modification Report, Version 6.0, was signed by Ofgem on 19/11/2004.

The new Network Code text resulting from this Modification follows.

Modified Text:

Insert as new paragraphs to Section E8:-

"8.3 User Suppressed Reconciliation Values

8.3.1 For the purposes of this paragraph 8.3 the "USRV Month" shall be the period of one month commencing on the 21st day of the month.

8.3.2 The User shall use all reasonable endeavours to ensure that no less than 50% of User Suppressed Reconciliation Values that are Suppressed in a USRV Month are not Suppressed in the immediately following USRV Month.

8.3.3 With effect from the third USRV Month after the User Suppressed Reconciliation Date and subject to paragraphs 8.3.4 and 8.3.5, in respect of each LDZ for each USRV Month the User will pay to Transco the amount (provided such amount is positive) calculated as:

$$\underline{(((0.95 * A) - B) * £20) + ((A - C) * £30)}$$

where following Individual NDM Reconciliation in USRV Month 'p'

- A is the number of User Suppressed Reconciliation Values for the
User that are Suppressed in USRV Month 'p':
- B is the number of User Suppressed Reconciliation Values for the
User that are Suppressed in USRV Month 'p' which are not
Suppressed in USRV Month 'p + 2':
- C is the number of User Suppressed Reconciliation Values for the
User that are Suppressed in any USRV Month 'p' and which are
not Suppressed in USRV Month 'p + 4' or any USRV Month after 'p
+ 4'.

8.3.4 In the event that the number of User Suppressed Reconciliation Values for a
User in a USRV Month:-

- (i) is greater than 150% of the average for such User in the six previous
USRV Months; and
- (ii) is no less than 20 User Suppressed Reconciliation Values greater than
the average set out in (i) above

paragraph 8.3.3 shall not apply and, subject to paragraph 8.3.5, in respect of
each LDZ and for such USRV Month the User will pay to Transco the amount
(provided such amount is positive) calculated as:

$$\underline{(((0.95 * A) - B) * £20) + ((A - C) * £30)}$$

where following Individual NDM Reconciliation in USRV Month 'p'

- A is the number of User Suppressed Reconciliation Values for the
User that are Suppressed in USRV Month 'p':
- B is the number of User Suppressed Reconciliation Values for the
User that are Suppressed in USRV Month 'p' which are not
Suppressed in USRV Month 'p + 3':
- C is the number of User Suppressed Reconciliation Values for the
User that are Suppressed in any USRV Month 'p' and which are
not Suppressed in USRV Month 'p + 5' or any USRV Month after
'p + 5'.

8.3.5 The amount due from all Users under paragraphs 8.3.3 and 8.3.4 shall not exceed £100,000 and in the event that the aggregate of amounts due from all Users for a USRV Month exceeds such amount, the amounts due shall be reduced pro rata.

8.3.6 Transco shall retain 2% of all amounts received pursuant to paragraph 8.3.3 and 8.3.4 above (as such amounts may be adjusted pursuant to paragraph 8.3.5) and shall credit the remainder to Users:-

- (i) after each period of three (3) calendar months and after Transco has received all payment due under paragraphs 8.3.3 and 8.3.4 from all Users for the relevant LDZ;
- (ii) pro rata according to the aggregate of the User SP LDZ Aggregate AQ in such three month period.

8.3.7 Amounts payable by the User under paragraph 8 will be invoiced and payable in accordance with Section S. "

Insert in paragraph 1 of Section W:-

"User Suppressed Reconciliation Date": shall be 21st February 2005"

Yours sincerely,

Julian Majdanski
Modification Panel Secretary