

Julian Majdanski
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3QJ

Phil Lawton
Distribution Regulation Manager
Phil.lawton@uk.ngrid.com
Direct tel +44 (0)1926 656448
Direct fax +44 (0)1926 656602

www.nationalgrid.com

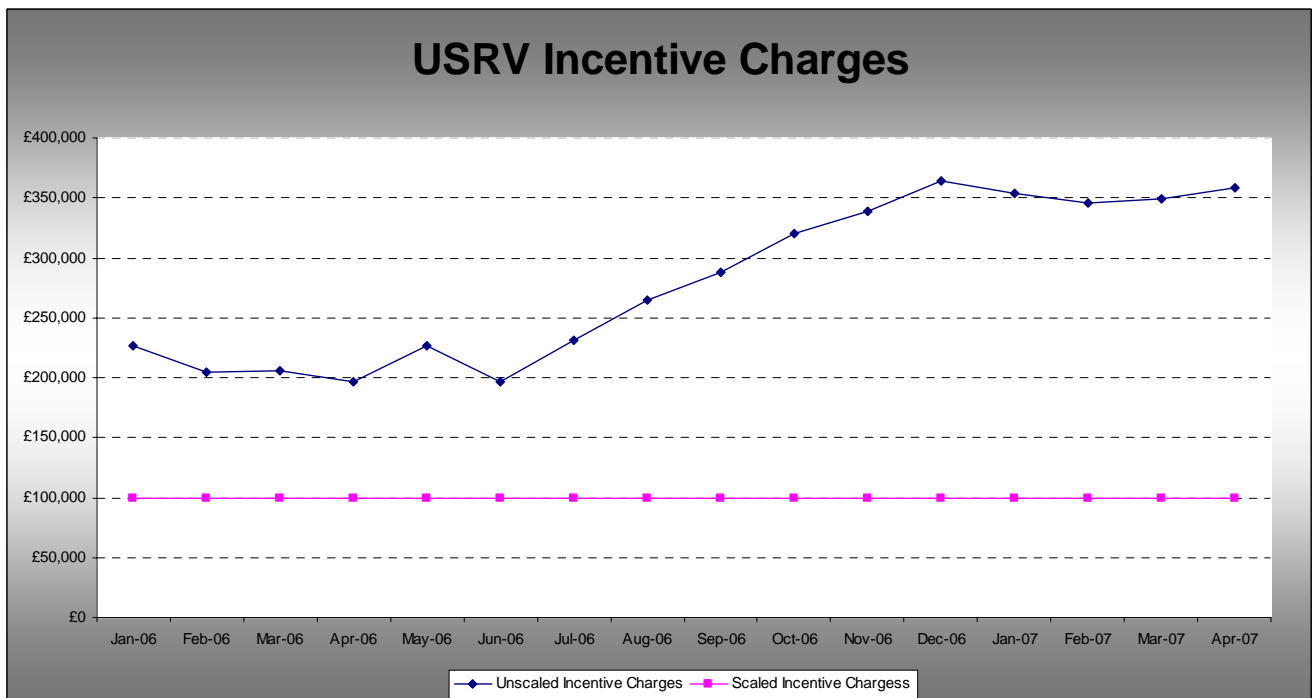
06 June 2007
Your Reference 0141/0141A

Re: Modification Proposals 0141 and 0141A: 'Revision to the 'User Suppressed Reconciliation Values' Financial Incentives arrangements'

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposals. National Grid (Distribution) ("NGD") supports implementation of Proposal 0141 but does not support implementation of the alternative proposal 0141A.

From statistics provided by the Transporters' agent xoserve, it is evident that the quantity of USRV items attracting a charge under the existing incentive regime has increased 85% between May 2005 and October 2006. Due to the presence of a cap in respect of the aggregate charges levied, the impact of this population increase has been an effective reduction in the actual incentive charge levied per unresolved item to as low as £5.48 (for the £20 M+2 charge) and £8.23 (for the £30 M+4 onwards charge) in December 2006. The following graph illustrates the extent of the scaling from January 2006.



Given that at the time of implementation of the incentive regime (pursuant to Network Code Modification 0637) the scale of the maximum possible incentive charges per unresolved item were deemed appropriate, it would appear to be equally appropriate to increase the cap such that the actual charge attracted by each relevant unresolved USRV is closer, or equal, to such.

Due to the limiting effect of the current cap, NGD opposes implementation of the alternative Modification Proposal 0141A. Whilst the introduction of a charge scale incrementing in line with the age of the unresolved item as advocated by Modification Proposal 0141A may have merit in levying a heavier financial burden in respect of older items, the retention of the current cap would (based on March 2007 populations) effectively reduce the incentive charge to under 8% of its notional value. We believe this regime would encounter the same problems as the existing regime in that the operation of the cap results in an individual charge per unresolved USRV that provides an insufficient resolution incentive.

Operation of each Proposal – April 2007 Dataset

Analysis of the April 2007 USRV data demonstrates that if the provisions advocated by 0141A were in place the charges per band would be required to be scaled down to 22% of their notional value to meet the £100,000 cap. The actual charge per unresolved item would therefore be:

Band	Notional Charge	Actual Charge (Scaled to 22.2% of notional value)
1	£30	£6.66
2	£50	£11.10
3	£100	£22.20
4	£200	£44.41
5	£300	£66.61
6	£400	£88.82
7	£500*	£111.02*

* these figures are illustrative only as no unresolved items older than six years were present within the April 2007 data.

In effect, 0141A provides an incentive to perform better than the average User but does not incentivise the community as a whole to improve performance.

Conversely, subjecting the April 2007 data to the regime advocated by 0141 demonstrates that the aggregate value of the incentive charges is circa £350k and therefore the cap is not triggered. Accordingly the incentive charge levied per unresolved item is at the notional levels (£20 for the M+2 charge and £30 for the M+4 onwards charge).

Draft Modification Report

NGD has the following comments to make in respect of specific sections of the Draft Report which is the subject of this consultation:

1. The Modification Proposal

We note that the proposer of 141A does not make reference to the existing M+2 incentive charge of £20 per unresolved item. We therefore assume that such a charge is retained and note that this would need to be added into the table contained within Appendix A to this proposal in order to provide an accurate breakdown of the incentive charges payable should the proposed regime be in place.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

NGD agrees that implementation of Modification Proposal 0141 would facilitate competition between relevant shippers by seeking to effectively incentivise Large Supply Points Users' compliance with relevant provisions of the Uniform Network Code and the Network Code Reconciliation Suppression Guidelines.

Whilst Modification Proposal 0141A also seeks to achieve equivalent facilitation, we believe that for the reasons identified above, due to the retention of the existing cap, implementation would not incentivise Users to any greater extent compared to the existing regime. We support the use of a cap in providing an effective back stop to prevent exposure to an unlimited liability but we are of the view that a cap should be set at such a level as to only be reached in the minority of cases. Having reviewed the unresolved populations since introduction of incentive charges, it is evident that the cap has always been reached and thus the charges applied per unresolved item have always been scaled down.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

b) development and capital cost and operating cost implications:

Though no formal analysis has been undertaken at present, our service provider xoserve has advised that it believes the increased administration fee percentage of 2.5% as proposed by 0141A is unlikely to cover the actual administration costs of the scheme advocated by this proposal.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

We note that both proposals seek to maintain the Transporters administration charge and believe that recovery of operating costs of administering the regime via retention of a proportion of the aggregate monthly charge to be appropriate.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Disadvantages

We note that the proposer of 0141A suggests that the potential for increased charges payable due to the increase of the cap advocated by proposal 0141 may be viewed as "penal" which is reflected within the 'Disadvantages' stated in the Draft Modification Report. We would argue that the charges reflect the likely costs imposed on RbD shippers and hence are not penal. However, we note that under 0141A much higher charges could be levied (up to £500 per month) which could be considered to be penal.

14. Programme for works required as a consequence of implementing the Modification Proposal

xoserve has advised that it would need to ensure that the functionality of offline systems including the ConQuest system is reviewed to ensure that the appropriate data is retrievable to address the particular requirements of each Proposal.

We trust these comments will be useful for compilation of the Final Modification Report.

Please contact Chris Warner on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information with respect to the above.

Yours sincerely

Phil Lawton
Distribution Regulation Manager