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Dear Julian,

RE: MODIFICATION PROPOSAL 0141A – ‘Revision to the ‘User Suppressed Reconciliation Values’ Financial Incentive arrangements’

Thank you for the opportunity to comment on the above modification proposal.

British Gas Trading (BGT) is not supportive of this modification proposal.

Further to our separate response to modification proposal 0141, we believe that 0141 better facilitates the achievement of relevant objectives of the Uniform Network Code. This response should be read in conjunction with the comments provided within our response to 0141.

The purpose of modification proposal 0141 is simply to ensure that the future operation of the USRV incentive regime, which was introduced by modification proposal 637, is appropriately amended in accordance with the original aims and intentions of the proposal. It further seeks to rectify components of the existing regime which are clearly not operating effectively and need to be addressed.

The proposal 0141 seeks to achieve this by increasing the incentive liability payment monthly cap from the existing value of £100k to £500k and make appropriate amendments to the arrangements relating to the level of costs recovered by xoserve for administering the incentive regime.

It is apparent that modification proposal 0141A seeks to go further than simply amending the existing regime and proposes a more fundamental modification of the process.

In response to specific aspects of modification proposal 0141A, we would like to take this opportunity to make the following comments.

Within modification proposal 0141A, the proposer states that they do not believe that the aims of 0141 are appropriate for a number of reasons:

- a) *'does not seek to target the incentive towards particular categories...'*. This is correct in that 0141 does not target specific categories of outstanding USRVs, as this is not its intent. 0141 seeks to amend the existing regime for the benefit of all outstanding filter failures and is not discriminatory in its intentions.
- b) *'presents a penal rather than incentivised solution'*. 0141 seeks to ensure that the incentive regime introduced by modification proposal 637 is amended appropriately to ensure that it operates in the manner that it was originally intended. The proposal does not seek to extend the current arrangements and subsequently does not seek to introduce a more penal solution.
- c) *'does not acknowledge that there may be genuine reasons why USRVs are occurring...'*. It is understood that there are numerous reasons why a USRV can occur, however regardless of the reason for the USRV occurring, under the current arrangements it is the responsibility of the Shipper to resolve the USRV in an efficient and timely manner. Performance levels across Shippers are not consistent and it is evident that some Shippers are either more active with regard to their resolution activities or have more robust processes in place, which enables them to achieve a higher rate of success.
- d) *'Shippers may attempt to take steps to mitigate the penalties by increasing resource towards USRV resolution...'*. This statement is puzzling as this is exactly the outcome which BGT hopes that the implementation of 0141 would achieve. The only way for the current unprecedented and unacceptable levels of outstanding USRVs to be addressed, is by Shippers undertaking appropriate behaviour with regard to USRV resolution and allocating appropriate levels of resource to undertake this activity.
- e) *'The increased penal charges may be viewed as being dis-proportionate compensation for the potential risk borne by RbD Users...'*. As aforementioned 0141 does not seek to implement penal charges, but simply to fully utilise the regime which is currently in place. The incentive regime is not in existence to compensate RbD Shippers, but needs to provide an appropriate incentive to Shippers to address their outstanding USRVs. Only efficient and timely resolution of USRVs will ensure that the risk and uncertainty, that RbD Shippers are currently exposed to, will be mitigated.

The age related targeted approach with the existing monthly cap of £100k, as proposed by 0141A, is not a feasible option to adequately address the numbers of outstanding USRVs and poor performance levels and does not better facilitate the achievement of the relevant objectives of the Uniform Network Code.

The effective capped charge figures, as detailed within Appendix A of 0141A, seriously devalues the level of the incentive payments further and subsequently reduces the effectiveness of the incentive regime.

Modification proposal 0141 seeks to ensure that individual incentive charges are not constrained by an inappropriately low monthly cap, and moves them towards the originally proposed levels of £20 and £30, as per modification proposal 637.

Under 0141A the majority of outstanding USRVs per month would be charged at an incongruously low level of £2.36, which we do not believe would provide Shippers with any incentive whatsoever to address their filter failures.

Finally, with regard to the proposed tiered charging structure, we believe that a fundamental change to the existing process of this nature, needs to be appropriately discussed and developed by all industry participants, prior to it being raised as a modification proposal. Further, it does not take into consideration the work currently being undertaken under modification proposal 0126.

As detailed within our response to 0141, during the development of modification proposal 0141 at the Distribution Workstream, it was recommended that further to the progression of 0141, a comprehensive review of the USRV process and incentive regime is required to ascertain whether any fundamental changes are required to further improve the robustness of the process and to give appropriate consideration to the potential impacts of modification proposal 0126 discussions.

BGT fully supports this course of action and will be raising a further modification proposal in the near future for industry development. It is our view that the development of any additional changes to the USRV incentive regime, over and above those proposed by 0141, should be suitably undertaken via the appropriate industry forum.

Should you have any queries with regard to this response please do not hesitate to contact me.

Yours sincerely,

Chris Wright
Commercial Manager