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**Response to UNC Modification Proposal 141a: Revision to the 'User
Suppressed Reconciliation Values' Financial Incentives
arrangements**

Dear Tim,

As the proposer of Modification Proposal 141A E.ON UK is in support of this Modification Proposal. Our reasons for proposing this alternative option are set out below.

Although sympathetic to the motivation for the original Modification Proposal 141 we do not believe that it will address the issues of reducing RbD uncertainty and providing adequate User incentives to clear USRVs in a timely manner. By contrast our alternative Modification Proposal 141a has clear tiered charges, which will bring sharp focus to the need for Shippers to address historic USRVs as a priority. In addition by retaining the £100k cap Modification Proposal 141A ensures that the USRV incentive scheme does not morph into a penal arrangement which bears no relation to the cashflow impact to RbD and does not recognise that the Shipper involved may not have been responsible for the data inaccuracies that have caused the issue. Equally the Shipper may not have the ability to resolve all instances, a further point that the original Modification Proposal does not recognise or address.

Issues with Modification Proposal 141

The simple increase in the liability cap suggested in Modification Proposal 141 will increase the financial penalties paid by shippers in not resolving USRV but there is no evidence to prove that this will have any affect on improving the overall level of resolution performance.

The original Modification Proposal also fails to address the underlying risk presented by USRV to the RbD market, in particular in relation to historic instances.

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When the majority of USRV are resolved little actual reconciliation energy is moved between the larger supply point market and the RbD market. However there are some instances where large volumes of energy do flow as a result of single USRV being resolved.

There is a clear commercial incentive on the shipper with a large debit USRV to take as long as possible to resolve it. This has a direct negative financial consequence upon the shippers operating in the RbD market.

This affect of one party upon others under the Uniform Network Code was the original and only justifiable reason for the implementation of a liability regime for USRV.

The current regime attaches liabilities to the number of USRV outstanding in an attempt to reduce the overall number. It does not however address the issue of shippers selectively targeting their activity with regard to USRV resolution and with regard to their impact upon RbD.

USRV that have been outstanding for a long time present a greater risk to the RbD market as i) they potentially suggest debit volumes deliberately delayed by shippers in their release, ii) once released into the RbD market they will potentially affect shippers who were not the registered owners of customers at the time.

The original Modification Proposal 141 was raised after it was highlighted that the overall number of outstanding USRV had increased at the end of last year. The overall number of USRV has in fact declined since March of this year which removes significantly the justification for the original Modification Proposal.

Interface with other Modification Proposals

Further to discussion at the Distribution Workstream on 24th May we would like to clarify that there is no particular implications from the introduction of Modification Proposal 126 for Modification 141A that does not exist for Modification Proposal 141. It was suggested that Modification 126 would "clear away" older USRVs, whereas it is our understanding that portions of the USRVs would be frozen out from reconciliation (positive or negative) if they are not resolved in time for close out. Obviously such an issue is for consideration in the implementation of Modification Proposal 126 itself and in determining its consequences for the market.

Conclusion

As the number of USRV that have been outstanding for a number of years has been increasing and the lack of aged incentives has proven to focus Shipper effort on the most recent instances, we believe that our alternative Modification Proposal 141A is the best option for delivering a more proportionate, robust and targeted incentive mechanism.

Yours sincerely

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