

Julian Majdanski
UNC Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3 QJ
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Mod Ref 0141 & 0141A
Name Sham Afonja
Phone 01905 340718
E-Mail Shamsudeen.Afonja@npower.com

Dear Julian,


Modification Proposals 0141 & 0141A "Revision to the 'User Suppressed Reconciliation Value' Financial Incentives arrangements"

On behalf of RWE npower, I would like to thank you for the opportunity to respond to Modification Proposals 0141 and 0141A. As the Draft Modification Report presented both proposals in the same document I am making our representations to both proposals in this one letter.

Modification 0637 was implemented in February 2005 and introduced a regime to incentivise Shippers to investigate the validity of data and process this by clearing all User Suppressed Reconciliation Values (USRV) in an efficient and timely manner. Initially there were concerns about the number of outstanding USRVs and that the introduction of the new regime could cost Shippers a considerable amount of money. The impact upon small Shippers by the sudden extra charge was one of the reasons why a cap was introduced. However, in instances where this cap is reached and exceeded, a scaling methodology is adopted.

Following several industry discussions and a presentation by xoserve to the Distribution Workstream in March 2007, it became apparent that the current performance by Shippers to investigate and resolve USRVs is consistently below the expected standard. This resulted in a substantial increase in outstanding USRVs for a period of six months to December 2006 (a trend that has been on the rise since the inception of Modification 0637).

It was also acknowledged that for the same period, there has been a gradual increase in unscaled monthly incentive payments from £196k to £364k and this continues to rise (referenced from Appendix B, Modification Proposal 0141). Or to put it another way, the unit charge has fallen from £30 per instance to less than £10, thereby almost creating a perverse incentive not to properly manage USRVs.


Oak House
Bridgwater Road
Bridgwater WR4 9FP
Tel: +44 (0)1905/34 05 21
Fax: +44 (0)1905/34 04 88
Email: shamsudeen.afonja@npower.com
Registered office:
Npower Limited
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 3652777

Modification proposal 0141 seeks to increase the incentive liability payment monthly cap from £100k to £500k. RWE npower support the implementation of Modification 0141. It seems logical to encourage data checks and corrections that are validated and swiftly processed. RWE npower believes that by increasing the incentive liability payment cap to £500k, it should further encourage Shippers to pay more attention to clearing their USRVs as it will ultimately improve the quality of dataflow for billing and charging purposes. Prompt clearance of USRVs also improves the confidence that domestic Shippers have about their costs.

We acknowledge that the increase in incentive payment monthly cap could potentially present Shippers with a considerably higher financial risk than the current regime if the level of outstanding USRVs continues to increase (the increase in cap would reduce the scaling methodology applicable under Modification 0637). However, we believe that if Shippers validate and clear USRVs in an efficient and timely manner, there will not be a need to pay the incentive charges on outstanding USRVs. Albeit this cannot be said for the aged USRVs that are more problematic and difficult to resolve for example, unconfirmed Change of Supplier (CoS) and/ or delay in xoserve confirming the validity of dataflow. These types of scenarios generally occur due to no fault to a User.

RWE npower also believes that Modification 0141 as drafted should encourage Shippers to create efficient USRV processes which will subsequently improve the reconciliation process. We believe that this can be achieved across the industry if the appropriate incentives are in place.

Modification 0141A seeks to retain the current incentive liability payment of £100k whilst also introducing a targeted approach, using an age related, progressively increasing charge structure to process outstanding USRVs. For the reasons given in support of Modification 0141 above, we do not support the implementation of alternative Modification 0141A.

We understand that alternative Modification 0141A proposes an approach which is more targeted at an individual Shipper to clear USRVs in a more relaxed environment. As such it would levy a heftier incentive payment monthly charge on Users for all that is outstanding. There is also the potential risk to the whole community as a continued backlog of USRVs provides uncertainty to Users in terms of the quality of data that goes through the system for reconciliation purposes and the cost associated to energy consumed.

We believe that Users would be paying more attention to clearing outstanding USRVs to avoid paying the correct charges given the absence of scaling methodology; the implementation of 0141 would increase xoserve's workload marginally. We therefore suggest that xoserve should continue to work with individual Shippers to understand a more suitable approach to clearing problematic, linked USRVs and the CONQUEST system.

Finally, we are happy for the Transporters agent, xoserve to retain the associated cost of monitoring and administering the incentive scheme. Modification 0141 proposes that revenue

received by Transporters under the current arrangements be capped to a total of 0.5% of the monthly cap. This is reasonable and also feels that xoserve and Shippers should be required to review this fee periodically and publish evidence supporting the appropriate fee to be charged going forward.

In conclusion we submit that Modification proposal 0141 proposes an effective and more appropriate solution to dealing with outstanding USRVs. The increased incentive liability payment puts in place a more robust contractual obligation with respect to USRVs and we believe it promotes the timely resolution of outstanding USRVs. We do not believe this to be the case for alternative Modification 0141A.

Should you like to discuss any of the issues raised above please do not hesitate to contact me.

Yours sincerely,

Sham Afonja
Gas Network Codes Analyst