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Modification Panel Secretary
Joint Office of Gas Transporters
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08 June 2007

Dear Julian,

Modification Proposals: 0141 / 0141a Revision to the 'User Suppressed Reconciliation Values' Financial Incentives Arrangements.

Thank you for providing SGN with the opportunity to comment on the above Modification Proposals.

SGN understands there are currently several thousand USRV's outstanding and attracting liabilities. Some have been ongoing for a long time; the oldest dating back to 2001. As the process currently stands unresolved USRV's present a significant financial risk to the RbD sector. Despite previous initiatives the number of unresolved USRV's seems to be growing rapidly. As such SGN is supportive of initiatives to try and resolve the matter.

There have been discussions at industry workstreams recently to try and establish whether the incentive charges should be set at different levels and whether monthly caps should be removed to provide a greater incentive to Users to resolve USRVs or set at a different level.

Modification 0141

Modification proposal 0141 seeks to increase the current £100k monthly cap to £500k. Correspondingly it seeks to amend the amount that Transporters are allowed to retain to cover administration costs; it is proposed that this should be capped at a total of 0.5% of the monthly cap of £500k.

SGN believes there is sufficient evidence to confirm that currently there is a large gap between the unscaled incentive payment amount and the actual scaled incentive payment paid by Users when the current £100k monthly cap is implemented. By December 2006 actual charges were almost 1/3rd of the due amount when scaled back. SGN feels this significantly weakens the incentive to clear USRV's. We believe this is further backed up when evidence suggests the problem continues to grow at an alarming rate.

SGN believes that raising the cap to £500k would incentivise Shippers to resolve their USRV's in a timely manner, ensuring more accurate information for billing purposes and ensuring charges are targeted more appropriately. SGN believes raising the cap to £500k may incentivise Shippers to resolve their USRV's in a timely manner, and analysis indicates that this will more closely reflect the 'real' value of all outstanding liabilities, although there is still some uncertainty regarding what the 'real' value of the invoices would be if the USRV's were resolved. The invoice could attract credit and debit values. As a whole we believe this proposal should better facilitate the securing of effective competition. .

Modification 0141A

Modification proposal 0141A was raised as an alternative to Modification Proposal 0141. It proposes to make no changes to the current £100k cap but introduces a tiered charging structure, the older the outstanding USRV the higher the rate it would attract. It also proposes to allow Transporters to retain 2.5% of all amounts received.

SGN is supportive of the tiered charging structure which applies higher rates to older USRVs; we believe this would provide an incentive to resolve filter failures in a timely manner. However by leaving the cap at £100k we believe this would greatly diminish any such incentive as there are currently a high volume of USRV's outstanding and this is escalating. As indicated above the current level of cap is scaling actual charges to approximately 1/3rd. SGN disagrees with the comment made by the Proposer that the level proposed under Modification Proposal 0141 would be penal. It is evident that it is not strong enough as the problem continues to escalate. If it was penal expectations would be for improvements in performance to be noticeably higher. Detailed analysis carried out by our service provider, xoserve; on the principles of Modification Proposal 0141a shows little or no overall improvements to the current regime as it currently stands, in fact some shippers that have large volumes of outstanding USRV's may see further reductions in their charges. SGN believe the cap needs to be increased to incentivise Users to improve performance.

To support the introduction of a tiered charging regime as proposed under Modification Proposal 0141a xoserve has also indicated that the additional work involved and the costs for systems development would increase and believe would not be covered by the 2.5% proposed to be retained by Transporters.

Both proposals will require various degrees of development to systems to support the principles set within them, if direction to implement is received an implementation date would need to be agreed.

We hope you find these comments helpful.

Yours sincerely

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