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Modification 141/141A - Revision to the User Suppressed Reconciliation Values Financial Incentives arrangements

Mod 141

Thank you for giving ScottishPower the opportunity to respond to the above Modifications. We have provided a response to both proposals within a single communication. For the avoidance of doubt, ScottishPower support the implementation of Modification 141 as opposed to 141A.

As demonstrated within Modification 141, Shipper performance in relation to the clearance of 'USRV' is below the expected standard. While some Shippers are performing well in this area, others do not appear to have invested the necessary effort or resources into clearing outstanding values. The current incentive regime in operation has a cap of £100k applied to overall liability payments. Application of this cap has served to dilute the intended affect of the incentives charges and as a consequence there is no genuine push by some Shippers in clearing outstanding USRVs in a timely manner. It could be perceived that rather than clear USRVs, which may have the impact of generating large debit values, that Shippers are content to pick up the reduced incentive charges.

The proposed increase of the cap from £100k to £500k substantially increases the charges that will apply and as a result should provide the necessary incentives to positively influence Shipper behaviour in the clearance of USRVs.

We believe that Implementation of this Modification will further the Gas Transporters Standard Special Licence Condition A11 (d) by ensuring that appropriate incentives are placed on Shippers to proactively engage in the clearance of USRVs. This in turn will improve that allocation of energy and transportation charges to the correct market sector. As it currently stands RbD Shippers face increased and prolonged risk of energy volumes residing within the domestic market sector. The allocation of energy volumes to the correct market sector will assist in securing effective competition between Shippers and Suppliers.

Mod 141A

ScottishPower do not support the implementation of this Modification. While we can see merit in the directing incentive charges at those USRVs that have remained outstanding for the longest period, we believe that while the cap on liability charges remains at £100k this dramatically reduces the level and impact of charges to be applied and therefore does not introduce the required incentive on Shippers to clear outstanding USRVs in a timely manner. From the information provided within Appendix A of the Modification Proposal, a total of 24,707 USRVs remained outstanding in March 2007. Of this total, 21,916 are related to the period 2006/07. With the application of the £100k cap, the effect is to reduce the incentive charge for 2006 from £50 to £3.93 and for 2007 from £30 to £2.36. In our view this proposal if implemented will not change current Shipper behaviour.

If you wish to discuss any of the points raised within this communication, do not hesitate to contact me.

Kind regards

Marie Clark
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ScottishPower