



Julian Majdanski
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3JQ

Wales & West House
Spooner Close
Celtic Springs
Coedkernew
Newport NP10 8FZ
T. 029 2027 8500
F. 0870 1450076
www.wwutilities.co.uk

Tŷ Wales & West
Spooner Close
Celtic Springs
Coedcernyw
Casnewydd NP10 8FZ

8th June 2007

Re: UNC Modification Proposals 0141/141A “Revision to the ‘User Suppressed Reconciliation Values’ Financial Incentives Arrangements”

Dear Julian

Thank you for the opportunity to comment on the above UNC Modification Proposals.

Over the last few months we have attended the Distribution Workstream and participated in discussions on this topic. It is widely accepted that the current USRV financial incentives arrangements are no longer appropriate and Wales & West Utilities (WWU) would like to comment as follows on these Modification Proposals.

We are supportive of the original Modification Proposal 0141 and are not supportive of the Alternate Proposal 0141A.

The Modification Proposals

When the Financial Incentives Arrangements were introduced in February 2005 the liability cap of £100,000 was deemed to be at a suitable and appropriate level. The level of USRV items increased rapidly, resulting in the scaling of charges on a monthly basis. This led to the average cost of each outstanding USRV decreasing over time. The arrangements no longer offer a suitable incentive and the potential level of charges, if not scaled back by the £100,000 cap, would have increased from approximately £200,000 in June 2006 to over £350,000 in April 2007.

By amending the liability cap to £500,000, as proposed in Modification Proposal 0141, the incentive arrangements would be brought back into line with the original intentions by applying a proportionate level of charge to outstanding USRV items.

Modification Proposal 0141 also seeks to amend the amounts that are retained by the Transporter which is currently set at 2% of all amounts received. The administration costs incurred by the Transporters do not significantly increase in proportion to the number of outstanding USRV items. In light of this we believe that by leaving the amount at 2% and introducing a cap equal to 0.5% of the liability cap (equating to a maximum monthly amount of

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

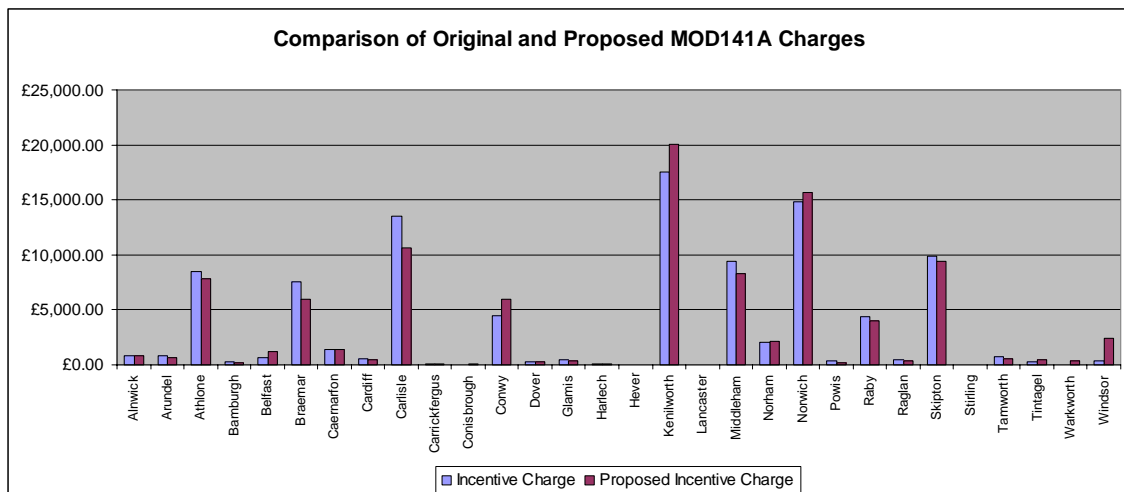
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Registered Office:
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£2,500) will ensure that Transporters are still appropriately funded for, and not over recovering, the administration that xoserve carry out on their behalf.

Modification Proposal 0141A is based on changing the liability payments that are levied depending on the age of the unresolved USRV item. This issue has been discussed at the Distribution Workstream and we are in agreement that a regime change will be required to further incentivise the resolution of aged USRV items. However, we believe that this is the 'next step' in amending the USRV financial incentive arrangements and requires further industry dialogue.

This Proposal intends to leave the liability cap of £100,000 in place and this would not have the desired impact of increasing the incentive on Users to resolve outstanding USRV items. xoserve have carried out analysis using the actual data for April 2007 and have compared the amounts that Users would incur under the proposed changes for each Modification against the charges under the current regime.

As Modification Proposal 0141 simply amends the total liability cap the impact on each User will be that the charges they incur would no longer be scaled down as the total amount (£357,000) is below the proposed cap (£500,000), and this would be a proportional change to all Users. Under Modification Proposal 141A any User that has 'aged' unresolved USRV items would see an increase to the individual charges that are applied. However due to the cap of £100,000 remaining in place the total amounts would be scaled pro rata. The impact on each User is shown in the following graph.



As the charges are simply scaled down the £100,000 is reapportioned across the Users with the 'aged' USRV items attracting a higher scaled value. This results in 5 of the 7 Users with the highest number of unresolved USRV items actually receiving a reduction in their liability charge. We do not believe this offers any increase in incentives on these Users and unfairly targets Users that may have a smaller portfolio of USRV items.

Extent to which implementation of the proposed modification proposals would better facilitate the relevant objectives

We agree that implementation of Modification Proposal 0141 would further the relevant objectives and promote further effective competition by the correct allocation of energy and transportation charges across the Large Supply Point market.

Modification Proposal 0141A also seeks to better facilitate this relevant objective. We believe this would be limited due to the liability cap that is in place as it restricts the benefits that this proposal could bring.

The Implications for Transporters and each Transporter of implementing the Modification Proposal

Modification Proposal 0141 would require system changes to be made by xoserve to amend the liability cap and to facilitate the introduction of the percentage cap on the Transporter retained amounts. The cost of such change is not thought to be significant and we believe these implications should not prevent the implementation of this Proposal

The complexity of the calculations required each month to facilitate the regime presented in Proposal 0141A would result in significant system changes and/or a significant increase in administration resource that would not be covered by the suggested 2.5%.

Advantages and Disadvantages of implementation of each Proposal

We agree that Proposal 0141 will increase the incentives upon Users to resolve USRV items in a timely manner and in accordance with UNC requirements. Proposal 0141A may incentivise certain Users but will have little or no impact on the majority.

We do not agree that Proposal 0141 can be seen as 'penal', the change in liability cap is purely a realignment of the proportionality of charges being levied under the incentive arrangements.

If you have any questions relating to this Representation please do not hesitate to contact me.

Yours sincerely

Simon Trivella
Commercial Analyst
Wales & West Utilities