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

Dear Tim,

For the reasons set out below E.ON UK do not believe that this proposal is contractually robust nor does it deliver the objective of incentivising timely resolution of filter failures and therefore we cannot support it.

Although sympathetic to the motivation for this Modification Proposal we do not believe that it will address the issue as successfully as our alternative Modification Proposal 141a.

The simple increase in the liability cap will enlarge the financial penalties paid by shippers in not resolving User Suppressed Reconciliation Values (USRV) but there is no evidence to prove that this will have any affect on improving the overall level of resolution. In addition the increase in the cap would make the USRV mechanism penal in nature, thus imposing costs on Shippers where the data quality issues are not always of their own making and cannot be resolved by them.

It also fails to address the underlying risk presented by USRV to the RbD market.

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 a 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.

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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 outstanding. 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.

This Modification Proposal 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 Modification Proposal 141. However the number of USRV that have been outstanding for a number of years is a concern and for these reasons we believe that our alternative Modification Proposal 141a delivers a more proportionate, robust and targeted incentive mechanism.

Yours sincerely

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