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The Modification Panel Secretary
 Joint Office of Gas Transporters
 31 Homer Road
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30 July 2010

Dear Bob,

RE: UNC Modification Proposals: 0298 – 0311 Suite of credit related Modification Proposals following UNC Review Group 0252.

Thank you for providing Scotland Gas Networks & Southern Gas Networks with the opportunity to comment on the suite of credit related UNC Modification Proposals 0298 – 0311 inclusive. SGN have provided a single response below detailing SGN's view on the implementation of each of the Modification Proposals 0298 through to 0309, a view of which of the relevant objective (s) each proposal better facilitates and a further more detailed response on Modification Proposals 0310 and 0311.

UNC Review Group 0252, 'Review of Network Operator Credit Arrangements' considered the current Network credit arrangements following the publication of the Ofgem 'Best Practice Guidelines' document in 2005 (which in itself suggested an annual review of the arrangements) also combined with changes in credit arrangements made by the Energy Balancing Credit Committee in light of recent financial uncertainties prevalent on a global scale. SGN, having attended UNC Review Group 0252 and participated in discussion of all the Modification Proposals 0298 – 0309, consider the proposals look to decrease the likelihood of unsecured bad debt occurring between Network Operators and Users. To that extent SGN have provided the following views on these proposals:

UNC Modification	SGN Recommendation on Modification Proposal Implementation	Better Facilitates Relevant Objective
0298	Support	A11.1 (d) & A11.1 (f)
0299	Support	A11.1 (d) & A11.1 (f)
0300	Support	A11.1 (d) & A11.1 (f)
0301	Support	A11.1 (f)
0302	Support	A11.1 (d)
0303	Support	A11.1 (d) & A11.1 (f)
0304	Support	A11.1 (d) & A11.1 (f)
0305	Support	A11.1 (d)
0306	Support	A11.1 (d) & A11.1 (f)
0307	Support	A11.1 (a), & A11.1 (d)



0308	Support	A11.1 (f)
0309	Support	A11.1 (d) & A11.1 (f)

UNC Modification Proposals 0310 & 0311

UNC Modification Proposals 0310 & 0311 are similar in respect that they both feature the removal of Distribution Network Operators as Users within UNC TPD Section V3.3.4, thus having the affect of excluding DNO Users from lodging a credit amount for the purposes of the enduring NTS Exit Capacity arrangements introduced by UNC Modification 0195AV. UNC Modification Proposal 0311 if implemented would additionally introduce amendments to the UNC to remove DNOs as Users in relation to the circa 51 days securitisation requirement for all applicable charge types, securitisation against DN Pension charges, the termination facility as detailed in UNC Section V4, the application of securitisation for any future DNO charges, the differential treatment of Distribution Networks by National Grid Transmission and the removal of potential increased security cost pass through to Shippers due to UNC requirements.

Although both UNC Modifications are distinct in that they have both been raised separately and as such are not official alternate proposals under the UNC Modification Rules, SGN would, whilst offering Support for both UNC Modification Proposals 0310 & 0311, provide a preference for Modification Proposal 0311 if it were an official alternative to MOD 310.

UNC Modification Proposal 0310 provides for the removal of DNOs as defined Users within UNC TPD Section V3.3.4. The current arrangements would have the affect of introducing the over securitisation of the DNOs for the purposes of NTS Exit Capacity arrangements from October 2012 onwards. In relation to SGN this would translate to a required credit cover for NTS Exit Capacity arrangements costing approximately £2M pa. The removal of DNOs as Users would have the additional affect of removing the differential treatment currently in place between the independent Distribution Network Operators and National Grid Distribution, who are included alongside National Grid Transmission as a single entity for credit purposes. In addition to the removal of DNOs as Users within UNC TPD Section V3.3.4 as detailed in Modification 0310 SGN consider the arrangements introduced by UNC Modification 0311 would also better facilitate the following relevant objectives.

SGN would provide the following comments in relation to certain sections of the Draft Modification Report in relation to Modifications 0310 & 0311:

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

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system;

SGN consider the implementation of Modification Proposal 0310 & 0311 would better facilitate this relevant objective as it would assist the independent DNOs by avoiding an increase in the operational cost of the pipeline system to which there would be no offsetting benefit.

Standard Special Condition A11.1 (d): securing of effective competition between (iii) DN Operators.



SGN consider the implementation of both proposals would create a level playing field between DN Operators in relation to the credit arrangements required to be in place for NTS Exit Capacity arrangements and general credit arrangements, thus securing effective competition between DNOs.

Standard Special Condition A11.1 (f): promotion of efficiency in the implementation of the Uniform Network Code.

Implementation of UNC Modification 0310 & 0311 would simplify the arrangements relating to credit for all Distribution Networks within the UNC and would also ensure Users had similar credit arrangements with all DNOs. The retention of the current process would create a two tier credit arrangement between DNOs.

We hope you find these comments helpful.

Yours faithfully

Joel Martin