

Julian Majdanski
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Dear Julian

30 October 2006

Re **UNC Modification Proposals 109, 111,112,113,114**

Dear Julian

Please find below Northern Gas Networks view of the above UNC Modification proposals. Our responses are based on our assessment of the specific merits (or otherwise) of each proposal. NGN are conscious that a Transporter can secure pass through of any bad debt it incurs where it is able to demonstrate compliance with best practice as outlined in these proposals raised by National Grid. Should Ofgem ultimately implement these proposals Transporters will have that protection. Should Ofgem not implement some or all of these proposals NGN would welcome early clarification of its exposure with respect to this vital area of Transporters business.

109 Acceptable Security Tools available to Users for Transportation Credit Arrangements

The inclusion of acceptable security tools within the UNC recognises the existing situation whereby Transporters utilise a range of tools (inc those defined in the proposal). As such NGN support this UNC proposal.

111 Management of Users Approaching and exceeding Upper limits of Credit Limit

NGN have concerns about this UNC proposal and are unable to support its implementation.

Waiting until a User breaches 100% of their credit limit (compared to the existing 85%) does not in our view afford Transporters, Users and ultimately consumers the level of protection required. Our analysis of the combined impacts of UNC proposals 111 and 114 (compared to now) would result in a typical User breaching its 100% limit in excess of 100 days per annum. This spreadsheet is attached confidentially for Ofgem's consideration.

Aside from this overarching concern, there are other points within the proposal NGN do not concur with. We do not believe Users should be granted an extra month to post additional security should Transporters transportation charges contribute towards an increase in the Value at Risk calculation. Users have sufficient notice of such price changes to ensure adequate security arrangements are in place.

This proposal lessens the standards required of Users currently which ultimately serve to protect all consumers and as such NGN does not recommend implementation of this proposal.

112 Aggregation of Credit Positions or Use of Group Ratings

NGN support this UNC Modification proposal. The proposal outlines principles and procedures already utilised by NGN and as such we believe this proposal to be acceptable in its content.

113 Availability of Unsecured credit Based on User Payment Record or Independent Assessment

NGN do not support implementation of this proposal in its current format.

We believe that there are material operating costs for Transporters in operating this proposed system which seeks to provide sixty (60) incremental credit step increases for a User based on an enduring unblemished payment record.

Linked to this administratively complex proposal is the apparent absence of any latitude which Transporters could operate should a User unwittingly miss a payment (BACS processing error/failure, mis-postings, small underpayments). We do not believe such a prescriptive proposal would allow Transporters discretion in these areas and if they were Users maybe faced with two tier credit limits based on Transporters interpretation of such events (which would not be uncommon in a 60 month period).

The other aspect of this proposal seeks to share the cost burden for Users seeking alternate credit ratings. Such ratings are typically provided to a single named source. This approach could therefore see a User and Transporters paying a combined fee to a single service provider to gain the same financial assessment on five separate occasions. This is neither an economic nor efficient solution.

114 Quantification of Value At Risk (VAR) to determine maximum User Credit Security Requirements

The provisions in this proposal seek to lessen the existing situation whereby peak trading values drive Users credit security levels. However the actual proposals seek to link the minimum level of security required to invoiced values within the previous calendar month (i.e. based on two months previous transportation volumes). Using

today's data as a prime example of why NGN believe this proposal to be inappropriate, November 2006 invoiced transportation charges will be derived from October 2006 volumes which will be used to generate December 2006 maximum User Credit Security Requirements. This example of a shoulder month being used to set winter (high consumption) limits is inappropriate and places risk on the Transporters, Users and consumers alike.

The attached spreadsheet (confidential) sets out our concerns should this proposal be implemented.

Should you have any questions in respect of this letter please do not hesitate to contact me.

Yours sincerely

Robert Cameron-Higgs
Network Code Manager