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John Bradley
Modification Panel Secretary
Joint Office of Gas Transporters
31 Homer Road
Solihull
B91 3LT

BY E-MAIL

30th July 2010

Dear John

UNC Modification 305 – Unsecured Credit Limit allocated through payment history

I am writing on behalf of Contract Natural Gas Limited (CNG), who is retaining me to deal with this matter.

Contract Natural Gas appreciates the opportunity to comment on this proposal. We are one of the smaller shippers in the market and are unable to enjoy the benefits of a rating from Standard & Poor's or Moody's, so the industry's credit arrangements and their impact on competition are a critical issue for our business.

While we appreciate the concerns raised about the current arrangements for using payment history in determining the Unsecured Credit Limit and are supportive of the concept of a soft landing for administrative errors, we do not support this proposal as it stands, as we believe it will not better facilitate securing effective competition between shippers and between suppliers in an appropriate manner for two reasons.

Firstly, the ultimate responsibility for maintaining creditworthiness should rest with the shipper (or supplier). The ability to use payment history would reduce the credit backing needed by new entrants, who potentially have the weakest understanding of the risks in the industry, and would lead to credit facilities being directed preferentially to purchases in the wholesale market. Consequently, we believe that the use of payment history increases the risk of default and the risk to be borne by transporters and then by other shippers. Consequently, we would favour the Review Group's initial preference for removing the use of payment history in determining a shipper's Unsecured Credit Limit.

Secondly, if payment history is to be a part of the arrangements, then it needs to be available to all shippers and not just those who have less than two years' experience in the market. A time limit is an arbitrary factor unrelated to a shipper's performance and in effect discriminates between new and established shippers.

We note that the views of some small Users were sought in developing this proposal and would be interested in know the process that was adopted. This also raises a wider question about the Review Group composition and process, as the constituents of the group were either transporters or larger shippers who have, or have parent companies with, blue-chip credit ratings. As such the participants in the Review Group were very unlikely to be significantly affected by most of the measures they have proposed to introduce.

In practice the entities that have been involved are either the monopoly network operators, who have the ability to recover bad debts through the price control mechanism, or large shippers who have associated suppliers that benefit from a weak independent supply sector. Undue differences in credit requirements can contribute to this benefit.

Participation in UNC review groups requires a level of resource that smaller shippers are unable to afford. The Code Governance Review has identified that assistance needs to be given to smaller parties if they are to be able to participate effectively in the code modification process. The suite of modifications arising from Review Group 252 is an excellent example of the need for such support. We appreciate that the Joint Office and licence holders cannot be obliged to do this, however before the Panel makes its recommendations, it could ask the Joint Office to use this opportunity to test how assistance will be provided and the resources needed, on an issue of significance to smaller parties. Any substantive comments on the proposals from smaller parties can also be fed back to the Panel and so included in its decision making process.

We would be happy to discuss these issues further with you.

Yours sincerely

Arthur Probert

c.c. Jacqui Hall, Managing Director, Contract Natural Gas Limited
Tim Jones, Finance Director, Contract Natural Gas Limited

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John Bradley
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30th July 2010

Dear John

UNC Modification 307 – Aligning the Defaulting User Threshold with Insolvency Act (1986) Threshold

I am writing on behalf of Contract Natural Gas Limited (CNG), who is retaining me to deal with this matter.

Contract Natural Gas appreciates the opportunity to comment on this proposal. We are one of the smaller shippers in the market and are unable to enjoy the benefits of a rating from Standard & Poor's or Moody's, so the industry's credit arrangements and their impact on competition are a critical issue for our business.

We do not support this proposal, as we believe that it is a disproportionate measure that could in practice create significant disruption to the operation of the industry that would far outweigh any improvement to the efficient and economic operation of the pipeline system. The threshold of £750 that is proposed is significantly smaller than the amounts billed, particularly for the larger shippers, so a small dispute could lead to the activities of a significant shipper being stopped, with consequential impacts on other industry participants.

We also consider that this proposal would not better secure effective competition between shippers. As the issuing of a termination notice would be at the transporter's discretion, there is a risk that any such provision would be selectively enforced, with smaller shippers being more likely to be the subject of a termination notice, as the impact from terminating a smaller shipper would be much less than for a larger shipper.

We note that there is no record of seeking the views of any small Users in developing this proposal and would be interested in know more about the process that was adopted. This also raises a wider question about the Review Group composition and process, as the constituents of the group were either transporters or larger shippers who have, or have parent companies with, blue-chip credit ratings. The monopoly network operators have the ability to recover bad debts through the price control mechanism, while large shippers who have associated suppliers that benefit from a weak independent supply sector. Undue differences in credit arrangements can contribute to this benefit.

Participation in UNC review groups requires a level of resource that smaller shippers are unable to afford. The Code Governance Review has identified that assistance needs to be given to smaller parties if they are to be able to participate effectively in the code modification. The suite of modifications arising from Review Group 252 is an excellent example of the need for such support. We appreciate that the Joint Office and licence holders cannot be obliged to do this, however before the Panel makes its recommendations, it could ask the Joint Office to use this opportunity to test how assistance will be provided and the resources needed, on an issue of significance to smaller parties. Any substantive comments on the proposals from smaller parties can also be fed back to the Panel and so included in its decision making process.

We would be happy to discuss these issues further with you.

Yours sincerely

Arthur Probert

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Tim Jones, Finance Director, Contract Natural Gas Limited