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Dear Bob,

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

**UNC 0298 - RG0252 Proposal 1: Amend and remove UNC TPD Section V3 text inconsistencies, errors and bi-lateral insurance clause**

E.ON UK supports implementation of this proposal, which would improve clarity of UNC transportation credit arrangements. Our only concern is to what extent the proposer has actually investigated the existence of bi-lateral credit insurance? The apparent lack of available products now may be symptomatic of the current financial climate and it may be a product that becomes available in the future; in which case removing it now from the UNC may be unduly hasty. Ofgem will need to be satisfied that sufficient analysis has been carried out on this issue to warrant implementation of this Modification Proposal.

**UNC 0299 - RG0252 Proposal 2: Alignment of portfolio sanctions across UNC TPD Sections V and S**

E.ON UK does not support this proposal. The reduction from five days to one day in which portfolio sanctions can be applied seems overly harsh, potentially disproportionate and leaves little room for remedial action by the User, or for mistakes on either User or Transporter side to be corrected (such as an incorrect VAR calculation).

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Unlike energy balancing, where there is the potential for debt to rapidly spiral upwards if action is not taken quickly, transportation credit debt is generally more predictable and slower to accrue and therefore can be managed in slightly less pressing timescales. Our key concern is that this shortened time limit may lead Transporters to act hastily, which could have serious consequences for a User's business if portfolio sanctions are imposed prematurely.

**UNC 0300 - RG0252 Proposal 3: Introduction of Fitch as an allowable Credit Rating Agency for the purposes of Code Credit Arrangements**

E.ON UK does not support implementation of this proposal. Although we have no objection in principle to Transporters using an additional credit rating agency, we note that the use of this service will likely require the Transporters (or the Transporter's Agent) to pay a subscription and that the cost of this will have to be recovered from Users (and ultimately customers). Information on the level of this cost and how it will be recovered is not included in this proposal, so it is impossible to assess it in terms of cost vs. benefit. For instance, if this proposal is implemented and a subscription is paid to this credit rating agency, but it is rarely, if ever, used by Users or Transporters; is it cost-effective to be using it? Further information and clarification on the cost of this service is required from the Transporters.

**UNC 0301 - RG0252 Proposal 4: Removal of the use of Specially Commissioned Ratings for the purposes of obtaining an Unsecured Code Credit Limit**

E.ON UK supports implementation of this proposal, on the grounds that removal of this part of Code would not appear to have a detrimental effect on existing Users or potential new entrants.

**UNC 0302 - RG0252 Proposal 5: Definition of Regulatory Asset Value (RAV) when calculating Maximum Unsecured Credit**

E.ON UK supports implementation of this proposal, on the grounds that it will bring consistency in credit arrangements between Transporters, which will assist Users in understanding and clarifying their transportation credit obligations.

**UNC 0303 - RG0252 Proposal 6: Obligation for Users to maintain a Code Credit Limit and at a reasonable level**

E.ON UK supports implementation of this proposal, on the grounds that it is seeking to protect the wider User community from exposure to credit default risk, which is possible under the current UNC arrangements, as described in this proposal.

**UNC 0304 -RG0252 Proposal 7: Introduction of a rating table for independent credit rating agencies for use with Independent Assessment**

E.ON UK supports implementation of this proposal, on the grounds that it will bring consistency in credit arrangements between Transporters, which will assist Users in understanding and clarifying their transportation credit obligations.

**UNC 0305 - RG0252 Proposal 8: Unsecured Credit Limit allocated through payment history**

E.ON UK supports implementation of this proposal, which should ensure that undue barriers to entry are not created for new entrants, whilst incentivising use of appropriate credit tools by existing Users.

**UNC 0306 - RG0252: Proposal 9: Administration of Shipper Credit Security Contact Details**

E.ON UK supports implementation of this proposal, on the grounds that it will bring consistency in credit arrangements between Transporters, but notes that it is unfortunate that this service cannot be extended to keeping Shippers updated about changes in contact details at Transporters. Shippers face the same challenges as Transporters in keeping up to date with contact detail changes.

**UNC 0307 - RG0252 Proposal 10: Alignment of Defaulting User Threshold with Insolvency Act (1986) Threshold**

E.ON UK does not support this proposal. By significantly reducing the threshold at which Users can be terminated from £10,000 to £750, there is a real risk of unnecessary termination actions being taken, affecting all Users. Whilst clearly any bad debt is unwanted, it does not seem prudent or proportionate for Transporters to be considering such extreme measures as termination over such small amounts. Measures to incentivise better performance by Users would be more appropriate for debts of this level. There is clearly a level at which the bad debt becomes untenable and a risk to other Users, which is, we assume, where the current £10,000 figure comes from.

**UNC 0308 - RG0252 Proposal 11: Appropriate use of the terms Surety and Security in UNC TPD Section V**

E.ON UK supports implementation of this proposal, on the grounds that it is, as far as we understand, a “housekeeping” Mod, which ensures consistency of references within the UNC.



**UNC 0309 - RG0252 Proposal 12: Timeframes for establishing and extending Guarantees and Letters of Credit**

E.ON UK supports implementation of this proposal, on the grounds that it clarifies the rules around Guarantees and Letters of Credit, removing uncertainty for Users.

**UNC 0310 - RG0252 Proposal 13: Removal of DNO Users from UNC TPD V3.3.4**

E.ON UK does not support implementation of this proposal, as it would create different credit requirements for Shippers and for DNs, but without a convincing justification for this. This raises the potential for undue discrimination between Users, which Ofgem will need to consider in formulating its decision.

**UNC 0311 - RG0252 Proposal 13a: Removal of DNOs as Users from UNC TPD V3 and V4**

As this is an alternative to UNC Mod 310, which, in principle, we do not support, E.ON UK also does not support implementation of this proposal. The current credit securitisation requirements outlined in V3 and V4 should remain in place so that any outstanding invoices are appropriately covered.

Yours sincerely,

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