

Representation For. 0025

"Notice Period for Credit Limit Downgrade and Remedies for Non-compliance"
Version 1.0

Date of Communication: 20/09/2005
External Contact: N Valecha (Regent Gas)
Slant: Against
Strictly Confidential: No

Abstract

Regent Gas opposes the above modification report and uses the following arguments to support its position

- 1) Smaller shippers, who are expanding, are under great cashflow constraints. As such requests to decrease their verdict limits (and so require the shipper to increase their security) within two days notice will add an unfair financial burden on them which could result (in some circumstances) to smaller shippers defaulting. This in turn could lead to a reduction in the competitive environment, which is contra to one of Ofgem's key principals (credit arrangements must not be unduly discriminatory or prevent the promotion of competition)
- 2) Currently, the VAR is calculated by reviewing the credit cycle with largest exposure (this is usually during winter periods) whilst the actual review of the credit limit is undertaken during the summer months (the least exposure). As such, the increase in the security is required when the exposure to Transco is least, so to add on a limit to request the funds within two days is unduly erroneous (the present request the funds within 30 days seems reasonable and fair). By adding on the non-payment remedies after the second day of notification (late payment charges per day and interest of 8% above base) seems unduly harsh.
- 3) All businesses in the commercial environment are exposed to some form of commercial risk. The majority of shippers will provide credit terms to their customers without the necessity of securities and harsh penalties. Of course the environment in which Transco operates is different from the shippers, but nevertheless, by implementing these proposals, Transco will be totally protected from any risk exposure. Further Transco already holds large amount of security so the potential exposure by continuing 30 days notice period will be very small.

Regards

Nandlal Valecha
Regent Gas