

Mr. Julian Majdanski
Joint Office of Gas Transporters
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West Midlands
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20 September 2005

Dear Julian,

Modification Proposals 0023,0031 & 0041 - "Impact on Code Communications"

Please note that this submission is also made on behalf of Total E&P (UK) plc.

Total Gas & Power Limited (TGP) & Total E&P (UK) plc support modification 0041 and do not support modifications 0023 and 0031.

Any extension of the code credit rules to increase the number of users with unsecured credit limits will logically increase the potential of default costs. This can only be justified if the increase in risk is outweighed by the increase in competition and when the limits proposed are based in fact. Of the three modifications only Modification 0041 has detailed on what basis its credit limits are derived. The other two modifications rely solely on the Ofgem best practice guidelines.

We have serious reservations about the unsecured credit limit values stated in the Ofgem Best Practice Conclusions Document. Ofgem acknowledges that there was no industry consensus on the use of "Basel II rules". While these rules are a useful guide in determining limits, for the Ofgem consultation they seem to have been the sole basis for determining the values. Indeed the only time the descending scale of credit values is mentioned is in the Ofgem conclusion document (paragraph 3.7), not the consultation document, and there is also a complete lack of evidence to justify the descending scale of 20% for BBB+ to 15% for BB-. Given this lack of information on their origin we can only conclude that the percentage values stated in the report represent the views of Ofgem only.

As Modifications 0023 and 0031 have no analysis backing up their values, they are not fit for purpose, and if implemented will significantly increase the risk of bad debt being incurred by the Transporters. This will in turn render the market less attractive to investors and hence reduce new market entrance. In contrast Modification 0041 has detailed on what basis its credit limits are derived and hence has a level of robustness the other modifications lack.

Comments on the draft modification report are as follows

- We fail to see why not aligning with Ofgem's individual view is a disadvantage to Modifications 0023 and 0041. The modification process is designed to ensure reasoned debate on any changes to the gas market. To assume that modifications must correspond to a pre-determined and, as demonstrated above, unjustified view fatally undermines that modification



process.

- Likewise we cannot see why increased alignment with Ofgem's opinion is an advantage for modification 0023 and 0031.
- All three proposals intend to regulate the amount of unsecured credit that can be granted to Users who operate in the gas market and as such ensures that credit is extended in a impartial and transparent manner.
- We also agree that each modification will benefit some Users in that that the amount of credit to be lodged will be reduced. However we believe that Modifications 0023 and 0031 reduce the requirement to an unacceptably low level.
- We believe that modifications 0023 and 0031 do not further the relevant objectives and modification 0041 does as only modification 0041 promotes competition without affecting the Transporters' ability to operate the network in an efficient and economic manner.

Should you wish to discuss our response further, please feel free to contact me.

Yours sincerely,

(This message is sent electronically and is therefore not signed)

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