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Dear Julian,

RE: Draft Modification Report 0107: "Specially commissioned credit ratings".

Thank you for the opportunity to comment upon this modification proposal.

British Gas Trading (BGT) supports the main principles behind this modification proposal. However, residual concerns about the extent to which legal drafting achieves what is set out in the modification report, as well as the omission of explicit reference to further simple but necessary safeguards (which we believe are implicit in the original proposal), means that our support is qualified. Our thoughts are set out in more detail below.

We recognise that the use of specially commissioned credit ratings was one of the recommendations in Ofgem's 2005 consultation conclusions document. BGT agrees that the use of such ratings from one of the recognised rating agencies is an appropriate means for companies to obtain unsecured credit. However, we also believe that an increase in the use of unsecured credit across the industry brings with it an element of increased risk for the remainder of the shipping community. This risk should be mitigated as far as possible, especially where such mitigation can be achieved simply and at no additional cost.

We agree with the principles set out in this consultation, namely that:

- the lowest of any multiple ratings be utilised;
- ratings should be monitored and reassessed at least annually; and
- the User concerned should bear all of the costs of initial and ongoing assessments.

We note, however, that for the first bullet point to be of any value, the party concerned must be obliged to reveal the results of any other credit rating assessments that it has obtained. We are concerned that the supplied legal drafting does not appear to make any

such provisions for disclosure, despite this being an integral part of the modification proposal.

In drafting legal text to address this point, BGT believes it would be necessary to set this obligation in the context of a time period, *e.g. disclosure of all ratings obtained in the last 12 months*. This will avoid instances where a party claims that a more favourable credit rating obtained within a very short timescale resulted from changes to its business, rather than just a different assessment of the same business.

We also believe that the proposal would benefit from explicit reference to the effect that any such unsecured credit will only be extended by the Transporter upon receipt of a letter from the rating agency confirming the Party's credit rating.

In summary, we believe that with appropriate safeguards to prevent undue risk being passed to the other shippers, the use of specially commissioned credit ratings could be a pragmatic option for managing transportation debt risk, while targeting the relatively modest initial and periodic assessment costs only at the relevant party. Combined with ongoing, rigorous and vigilant credit and debt management processes by transporters, the use of such credit ratings could increase the choice of credit tools available to UNC parties, and help to facilitate new market entry and lower overall tied costs.

Against this background, BGT is happy to lend its support to this proposal on the basis that these points are amended. We believe that were this to be the case, the relevant objective of facilitating the securing of effective competition between relevant suppliers is achieved.

Please don't hesitate to contact me if you have any queries about this response.

Yours sincerely

Chris Wright
Contracts Manager