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Our Ref: AHT/Mod 0107 response

Dear Julian

Representation in response to Modification Proposal 0107: "Specially Commissioned Credit Ratings"

Thank you for the opportunity to respond to this Draft Modification Report (DMR).

National Grid NTS supports this proposal and offers the following comments, in line with the section headings in the DMR.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

National Grid NTS agrees that implementation of consistent credit processes should help ensure that there is no inappropriate discrimination and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between relevant shippers.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

National Grid NTS does not foresee any implications for security of supply or operation of the Total System. National Grid NTS believes that consistent credit arrangements could facilitate non-fragmentation of the industry.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

National Grid NTS agrees that the level of credit risk consequent to the proposed Modification will be equivalent to that currently permitted by the UNC for Users which have an Approved Credit Rating provided by Moody's or Standard & Poor's and therefore there should be no change to the contractual risk of Transporters.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

National Grid NTS supports the proposal that Users should bear the costs of the initial assessment and any periodic reviews where required.

In terms of the level of contractual risk faced by Users, National Grid NTS has a concern that the proposal may increase the value of unsecured credit at risk, as discussed in section 10 below.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

National Grid agrees with the Proposer that the Modification represents an advantage to Users in terms of offering an additional means of obtaining unsecured credit from a Transporter.

Disadvantages

While recognising the stated advantage to Users above, National Grid NTS equally recognises the concern raised by the Proposer that the Modification could potentially increase the value of credit which is unsecured and, by implication, the increased risk of bad debt occurring. National Grid NTS shares this concern but, as a Transporter, takes comfort from the reassurances provided by Ofgem in its Best Practice Guidelines document which states:

“4.3 Companies demonstrating compliance with or able to satisfactorily to explain departure from the guidelines will be able to recover all bad debt losses arising in respect of charges not due for payment at the date of the relevant counterparty’s insolvency, net of any dividends or recoveries;

4.4 Such companies will also be able to recover a proportion of bad debt losses arising in respect of charges overdue for payment at the date of the relevant counterparty’s insolvency, net of any dividends or recoveries (which would be offset proportionately against all outstanding balances), depending on the age of the outstanding receivable. Ofgem has noted comments from a number of respondents regarding the opportunity to recover 100 per cent of bad debt whilst employing reasonable procedures. Ofgem has concluded that the amount recoverable would be equal to the value of outstanding balances subject to bona fide dispute (plus or minus the value of any reconciliation adjustments subsequently made) together with a proportion of the value of all undisputed balances (up to a maximum of 100 per cent) that varies inversely with the age of the balance, as set out below. The overall recoverable amount would be reduced for any other recoveries.

14. Programme for works required as a consequence of implementing the Modification Proposal

National Grid NTS understands that there would be very little impact on operational processes and procedures in the event that this Modification were implemented.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Given the limited impact outlined in section 14, National Grid NTS considers that this proposal could be implemented with immediate effect from the Authority's direction being given.

19. Legal Text

National Grid NTS notes that the reference to paragraph 3.2.5 in the Legal Text that starts "*A User's Code Credit Limit...*" should be a reference to paragraph 3.2.4 in line with version 2.11 of Section V of the UNC, dated 4 September 2006.

In addition, there is a typographical error in the last sentence of the proposed amended paragraph 3.1.1, such that the proposed text that currently reads "*User has a reasonable belief that **it's** Approved...*" should read "*User has a reasonable belief that **its** Approved...*".

Yours sincerely

A handwritten signature in grey ink that reads "Alex Thomason". The signature is written in a cursive style with a large initial 'A'.

Alex Thomason
Senior Commercial Analyst