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1 November 2006

Dear Julian,

**RE: Draft Modification Report 0113: "Availability of Unsecured Credit Based on User Payment record or Independent Assessment".**

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

British Gas Trading (BGT) is not in support of the proposals set out in this consultation.

Whilst BGT agrees with the principle of unsecured credit which is provided pursuant to appropriate safeguards, we are also mindful of the increased risk being placed upon the remainder of the industry. Both proposals seek to increase the amount of unsecured credit across the industry, which in the event of default will fall as debt to the balance of the User community.

In respect of a User's payment record to determine credit worthiness, we broadly agree with the principle, and believe that the methodology set out for earning unsecured credit is reasonable. However, we consider that the levels that can be achieved via this route, gives rise to unacceptable exposure on the balance of the industry. Instead, we would prefer to see a lower cap than the 2% figure proposed.

We have greater concerns about the Independent Assessment proposal, however. We do not agree with, nor understand, the rationale behind the transporter, and therefore the rest of the industry, cross-subsidising a process which result in a benefit to the individual User concerned.

It could be argued that the benefits of a successful outcome to an independent assessment could eventually find their way back to customers through lower charges, as a result of lower tied capital. However, we note that there is no proposal to cross subsidise the Specially Commissioned Credit Ratings proposal set out in modification 0107, which has significant parallels with this proposal.

We also note that an independent assessment, funded in the majority by the transporter, could still result in a rating that is unsuitable for securing credit. In such circumstances, the cross subsidy will have resulted in no benefit to the User, the transporter, or indeed any other party across the industry.

At this stage, the industry has no visibility over who might be engaged to carry out an independent assessment, and therefore can have no certainty about the appropriateness of any such assessor(s).

Finally on this point, we do not agree with the methodology that can grant a higher credit allowance to an unrated Users, than to a User with a formal Credit Rating below a pre-determined level. This methodology would tend to imply that once that threshold is reached, an unrated User will always carry a lower risk.

Because of the increase in cost and risk that we believe will accrue to Users from these changes, we do not support the implementation of this proposal overall, and we do believe that any of the relevant objectives are better facilitated.

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

Yours sincerely

Chris Wright  
**Contracts Manager**