

TOTAL GAS & POWER LIMITED

Mr. Julian Majdanski
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Dear Julian,

Modification Proposals 0114 "Quantification of Value at Risk (VAR) to determine maximum User Credit Security Requirements"

Total Gas & Power Limited supports the implementation of Modification Proposal 0114.

Our comments are as follows:

Any change to the derivation of the Value at Risk will either increase risk of bad debts being incurred or will result in additional costs from providing extra security. The definition that is proposed will ensure that Users provide a level of credit without excessive additional risks or costs and so seems appropriate.

With regard to the incorporation of the Value at Risk within the UNC, at present the Transporters determine individually the level of credit a User must secure. Though each Transporter operates broadly similar criteria, they may diverge in the future. It therefore seems appropriate that a consolidated set of guidelines are incorporated within the UNC.

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

Gas Transporter Licence Standard Special Condition A11.1

(a) *the efficient and economic operation of the pipe-line system to which this licence relates;*

Does not apply to this objective.

(b) *so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Does not apply to this objective.

(c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Does not apply to this objective.

(d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:(i) between relevant shippers;(ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*



This modification defines VAR at a level which will ensure that Users incur appropriate costs without unduly exposing the market to bad debts and so furthers competition.

Creating a consistent set of arrangements with regard to Value At Risk will help simplify the current arrangements, and so help encourage competition between Shippers.

- (e) *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers; and*

Does not apply to this objective

- (f) *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Does not apply to this objective.

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

Defining VAR within the UNC will help prevent future industry fragmentation.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

No implications identified for Transporter Networks.

b) development and capital cost and operating cost implications:

Transporters will be required to adjust their processes to recognise a revised credit requirement. As Transporters currently monitor this information, then the changes will be incremental.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Do not anticipate any costs requiring recovery outside of allowed revenue

d) analysis of the consequences (if any) this proposal would have on price regulation:

No consequences identified.

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

The definition of a forty-five day window will result in a reduction in the credit cover lodged by Users. This will increase the contractual risk for Transporters.



The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No implications identified.

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

Users that are obliged to provide security will be able to reduce the cover currently provided. This will increase the risk to other Users that bad debts will be incurred, though we do not believe this to be excessive.

The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No implications identified.

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Specifying how the level of security will be derived clarifies the nature of the contractual relationship between Transporters and Shippers with regard to securitisation.

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

We have identified the following advantages:

- Codifies current practice, preventing industry fragmentation.
- Provides clarity on amount of security required.

We have identified the following disadvantages:

- Transporters will incur costs from increased monitoring and adjustment of lodged securities.
- Increases risk of bad debt being passed through.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Not required for this purpose

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence



Not required for this purpose

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

The modification requires significant changes to the credit checking process to enable implementation.

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

We concur with the proposer that this modification requires development work to allow implementation and therefore a delay is appropriate.

Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications identified

Further Comments

None

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

Yours faithfully

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