

25 June 2007

Julian Majdanski
Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands B91 3Q



Dear Julian,

Re: Draft Modification Reports 0144/0144AV

Corona Energy ("Corona") wishes to submit the following in response to the above draft modification reports.

Introduction

By way of introduction Corona wishes to emphasise key observations made in our response to Ofgem's Consultation Document "*Recommendations for best practice guidelines for gas and electricity network operator cover.*" Our response detailed the principles we believe should be adhered to when considering any modification to the credit rules, and are reproduced as follows:

"A number of issues must be taken into account when considering whether changes to the existing credit arrangements will further facilitate competition by lowering barriers to entry but without simultaneously undermining confidence in the efficient operation of the gas and electricity markets.' We believe it is important to distinguish between the two aspects of this statement.

- I. Providing/increasing unsecured credit to smaller/unrated companies will lower barriers to entry.*
- II. The greatest potential to undermine confidence in the gas and electricity markets will occur due to the failure of a large shipper/supplier, of which there have been a number of such failures in the last few years (Independent Energy, Enron, and TXU Europe). Failure of small shippers/suppliers has limited financial or operational impact.*

In addition, our assessment of the recommendations of the Workgroups and Ofgem has taken into consideration the following:

- any changes to the credit arrangements should ultimately be for the benefit of the customer, either through a more competitive market, or a more secure and stable environment, or both;*

- *As a regulated industry, the Network Operators (“NWO”) do not have the option to refuse to trade with a counterparty.”*

In light of this, Corona evaluations as to the merits of the various Modification Proposals are based on the fulfilment, or otherwise, of the basic principles which we believe are fundamental to the operation of the credit arrangements and by extension the competitiveness of the UK gas markets.

In summary, Corona’s assessment of the individual Modification Proposals will, in addition to testing them against the Relevant Objectives, consider the following impacts:

- Reduced barriers to entry for “smaller” companies
- Increased potential for failure for “larger” companies
- Produce benefits to customers
 - i. more competitive markets; and/or
 - ii. more secure and stable environment

Hereafter, the measures detailed above will be termed the “Corona Objectives”.

Draft Modification Report 0144 and 0144AV – Quantification of Value At Risk to determine a User’s minimum Code Credit Limit Requirement

Corona does not support implementation of Modification 0144 nor Modification 0144AV; however, it wishes to state a slight preference for Modification 0144AV.

Our concerns with the Proposals are the same as those detailed in our previous response to Modification 0114. Modification 0144 does not properly account for the payment dates of the Capacity and Commodity invoices, being a minimum of 20 days into the month following the month of gas flows. Secondly, it only considers the value of unpaid invoices and not the value of the invoices themselves likely to be experienced over a peak supply period. The combination of these conservative valuations will mean that there is significant potential for under securitisation. Similarly, although Modification 0144AV takes a more reasonable approach by adopting the 20 day principle, we would argue the simple addition of the unpaid invoice amount is likely to raise securitisation issues for the industry.

Corona believes that the approach proposed in our previous response is more pragmatic and more in line with the objective of providing credit arrangements which are secure and stable. The approach we proposed is as follows:

- The peak value of all Transportation charges invoiced to the User within one of the previous 12 calendar month, plus
- a value equivalent to 20 days of the average daily charge in respect of the above seasonally adjusted

Better Facilitating of the Relevant Objectives and Corona Objectives

Corona does not believe that the Proposals would better facilitate the Relevant Objectives. We believe that the Proposals undervalue the amount of

credit which should be lodged to support a gas shipping activity. For this reason we are of the view that Users will be insufficiently covered and incidences of default are likely to increase.

Corona believes that it would lead to instability which is not conducive to fostering a competitive environment.

Finally, uncontrollable financial risk is not attractive to new investors and as a result the Proposals would, to some degree, deter new entrants from participating in the market.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely

James Crosland