

Julian Majdanski
UNC Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3 QJ
27th June 07

Mod Ref 0144 & 0144AV
Name Sham Afonja
Phone 01905 340718
E-Mail Shamsudeen.Afonja@npower.com

Dear Julian,

Representations to Modification Proposals 0144 & 0144AV "Quantification of Value at Risk (VAR) to determine a User's minimum Code Credit Limit Requirement"

On behalf of RWE npower, I would like to thank you for the opportunity to respond to modification proposals 0144 and 0144AV, which have been raised by National Grid Distribution and Wales & West Utilities respectively. We would like to make our representations to both the above proposals in this one single response.

RWE npower welcomes the review of the current Value at Risk mechanism and acknowledges both modification proposals' attempt to align the Uniform Network Code (UNC) Credit Cover Arrangements with recommendations within Ofgem's Conclusions document. However, we feel that the proposals as currently drafted are not consistent with the recommendations in Ofgem's Conclusions document, the relevant Transporters Code Credit Rules and also, the required Section of the UNC, and for these reasons, RWE npower will not be supporting either modification proposal.

National Grid Distribution and Wales & West Utilities have both proposed that Transporters adopt a 'Value at Risk' (VAR) mechanism that would determine the minimum value of Code Credit Limit a User has to establish with a Transporter. However, both these organisations have proposed a different mechanism on how to derive the VAR.

npower

Oak House
Bridgwater Road
Worcester WR4 9FP

T +44 (0)1905/34 05 21
F +44 (0)1905/34 04 88
I www.npower.com

Registered office:
Npower Limited
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 3653277

Basically, mod 0144 proposed that VAR at any time is; $A + 15 \cdot (A/B)$ where, A is aggregate of amount invoiced to the User but remaining unpaid (irrespective of whether such amount is due for payment); 15 represents a number; and B represents number of calendar days when amounts invoiced in A was accrued. However, mod 0144AV has proposed that VAR at any point in time is the sum of; the aggregate amount invoiced to the User but remaining unpaid (irrespective of whether such amount has become due for payment); and the average daily rate of the aggregate amount invoiced to the User in the previous calendar month multiplied by 20.

RWE npower would like to acknowledge that these proposals (as drafted) are looking to reduce the current Code Credit Rules methodology of calculating a User's Credit Cover Limit from 63 days of peak trading to 45 and 50 days peak trading for mods 0144 and 0144AV respectively. Although, we believe this approach could reduce the amount of credit cover required from some Users, we believe that the outcome and direction on modification proposal 0145 would determine whether the issue of cash calls is valid or not.

As currently drafted, RWE npower does not feel that the application of either mechanisms are consistent based on our understanding and as such, we find these modification proposals to be haphazardly constructed without proper consideration of the entire process. We have the following concerns;

- RWE npower does not believe that the current definition as proposed by either proposer is in line with the recommendations contained within Ofgem's Conclusions document.
- Inconsistency in suggested legal texts for both modification proposals for example, reference to Code Credit Rules is not deleted in 3.2.4 (d) and 3.4.4.
- Relevant Transporters Code Credit Rules currently not subject to UNC governance arrangements (UNC Section V, Paragraph 3.1.3), but neither proposer have made necessary provisions and procedures as to the enforceability of such inclusion into the UNC.
- Mods 0144 and 0144AV's reliance on the Authority's approval of mod 0145 (we believe that modification proposals should be independent of another mod being considered).
- Current wording of the UNC Section V, Paragraphs 3.1.3; 3.1.4; 3.3; 3.3.1; 3.3.2 & 3.3.3 further illustrates the dependence on decision of mod 0145 on mods 0144 and 0144AV.

We are uncomfortable with some of the vagueness within the proposal and in particular, the point that the User's Code Credit Limit must be equal to or greater than the VAR. It is not made clear how the amount of Code Credit Limit greater

than the VAR is determined. This amount could be one pound, or one million pounds. Further more it is also not made clear what happens in the case of a dispute.

We have further concerns that the amount of outstanding invoices will determine how much Credit Cover is required. If this argument is taken to the extreme, then if a shipper arranged to pay the Transporter on the same day that the invoice is issued, then the Shipper would not need to put up any Credit Cover. This, however, does not afford the Transporter any cover for liabilities that the Shipper is incurring but has not issued.

As this is not the first time that the proposer (National Grid Distribution) has raised this modification proposal, we have to assume that such an outcome is intended. However, this puts other Shippers at considerable risk should such a Shipper employ the aforementioned process and subsequently go out of business. It is anticipated that having implemented the recommendations of the Best Practice Guidelines then they would be allowed to recover any lost revenue from the rest of the market.

We understand that the proposers are hoping that the mods, (if either is approved by the Authority) would ultimately replace the existing provisions that determine a User's Credit Cover Limit to be established in the UNC in accordance with the relevant Transporters Code Credit Rules. We would like to state that the transition of these provisions into the UNC are not clearly defined nor clarified within either proposal and we believe that implementation of either proposal would not be consistent with credit processes that move towards Best Practice Guideline.

It is RWE npower's belief that Credit Cover arrangements should be governed by robust, consistent and transparent modification procedures, which both of these has failed to address.

We would like to suggest that a review of the whole Credit Cover arrangements together with Ofgem's Conclusions document would be appropriate. We trust that this would help the industry to understand the necessary requirements and processes that are needed to be put in place.

In conclusion, we disagree with the objectives of these proposals as currently drafted, as these proposals would not facilitate the securing of effective competition between relevant shippers. For reasons highlighted above, RWE npower will not be supporting the implementation of either modification proposal.

Should you like to discuss any of the points raised above please do not hesitate to contact me.

Yours sincerely,

Sham Afonja
Gas Network Codes Analyst