



Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
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29 June 2007

Dear Julian,

Modification Proposals:

0144 / 0144AV: Quantification of Value At Risk (VAR) to determine a User's minimum Code Credit Limit Requirement

0145: Management of Users Approaching and Exceeding Code Credit Limit

0146: Acceptable Security Tools available to Users for Transportation Credit Arrangements

0147: Administration of Unsecured Credit Afforded on the basis of Payment History and Independent Assessment

0148: Aggregation of Credit Positions or Use of Group Ratings

Thank you for the opportunity to comment on the above UNC Modification Proposals.

In so far as each Modification Proposal seeks to implement Ofgem's published recommendations in its conclusions document 'Best practice guidelines for gas and electricity network operator credit cover' 58/05, SGN believes implementation will provide greater transparency and ensure consistency across Transporters and consistency in credit processes. This should ultimately better facilitate the relevant objectives relating to securing of effective competition between relevant Shippers.

SGN have been working with the industry to modify the UNC in order to implement the Best Practice Guidelines. SGN has also amended its Code Credit Rules, internal procedures and working practices in order to conform with the Best Practice Guidelines.

0144 / 0144AV: Quantification of Value At Risk (VAR) to determine a User's minimum Code Credit Limit Requirement

SGN are supportive of Modification Proposal 0144AV and are not supportive of Modification Proposal 0144.

The principals of both proposals are very similar in that they both propose that Transporters adopt a 'Value at Risk' mechanism to determine the minimum value of Code Credit Limit required to be in place. They have also been raised to reflect the recommendations set out within the Ofgem best practice guidelines conclusions document.

SGN fully support and agree with the comments made by the proposer for Modification 0144AV that the definition of VAR within Proposal 0144 does not accurately reflect the intention of the Guidelines and that Modification Proposal 0144 seeks to create a VAR calculation that can result in a negative or zero value at certain times of the month. This creates the potential for under securitisation which goes against one of the underlying principles of the arrangements for credit cover in that credit arrangements should provide as secure and stable a business environment as is reasonable.

SGN has the following comments to make in respect of specific sections of the Draft Modification Report for 0144 / 0144AV:

2 Standard Special Condition A11.1 (d):so far as is consistent with sub-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:

Implementation of both modification proposals would promote consistency within the credit processes whilst supporting the best practice guidelines, therefore facilitate the securing of effective competition between relevant Shippers.

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

b) development and capital cost and operating cost implications:

There will be changes to operational processes and procedures due to the monitoring of Users' respective Value at Risk quantities however SGN believe any costs to support this would be minimal.

Proposal 0144AV:

Modification Proposal 0144AV provides for a more stable VAR mechanism than Modification Proposal 0144 and reducing the risk of exposure for Shippers and transporters thereby further facilitating competition and efficiency of arrangements.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

SGN agree with the Proposer's that either Modification Proposal could be implemented with effect from 3 months following the appropriate direction being received from the Authority.

0145: Management of Users Approaching and Exceeding Code Credit Limit.

SGN supports the implementation of Modification Proposal 0145.

SGN believes that overall it will improve efficiency of current processes and arrangements ensure continued protection against defaulting Users and help secure effective competition. However SGN notes that removal of sanctions at an earlier stage potentially increases risk to Transporters and other Users. We also note that the proposer has identified that implementation would incur costs of making significant changes to operational processes and procedures. SGN believes changes would be minimal and could be implemented within 3 months following direction from the Authority.

0146: Acceptable Security Tools available to Users for Transportation Credit Arrangements.

SGN offers comments only for Modification Proposal 0146.

SGN notes that one of the reasons Ofgem rejected the original Proposal 0109 was on the grounds of double counting; an extract of Ofgem's decision letter below:

'In the event the parent company guarantees the obligations of the User and as a result the credit rating of the parent company is substituted for that of the User, the guarantee of the parent company or any other affiliate must not be used to secure credit in excess of the unsecured credit limit; to do otherwise would be 'double counting' (i.e. having the effect of the parent company securing a greater liability than its credit rating will support).'

It appears that proposal 0146 still allows double counting; permitting a Users credit limit to be extended beyond its Unsecured Credit Limit (UCL) where the User is relying on a Parent Guarantee to set the UCL.

0147: Administration of Unsecured Credit Afforded on the basis of Payment History and Independent Assessment.

SGN supports the implementation of Modification Proposal 0147 to the extent it reflects the Ofgem best practice guidelines.

SGN agree with the proposer with regards to a User's UCL being reduced by 50% if the User fails to pay a Transportation invoice in full, and reducing it to zero on the second occurrence within a 12 month period. This appears more reasonable than the provisions set out in Modification 0113 where the UCL was to be valued at zero from the date of payment default.

0148: Aggregation of Credit Positions or Use of Group Ratings.

SGN supports the implementation of Modification Proposal 0148.

SGN believe that the proposal is consistent with the Ofgem best practice guidelines and outlines principles and procedures which are already utilised by SGN. Implementation would improve transparency and would ensure there is consistency across all Transporters and Users.

We trust these comments will be useful for compilation of the Final Modification Report.

Yours sincerely

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