

Mr. Julian Madjanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

Your ref
Our ref
Name Chris Hill
Phone 01905 340693
Fax
E-Mail Christian.hill@rwenpower.com

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**Re: Modification Proposal 0145: Management of Users Approaching and Exceeding Code Credit Limit
Version 1.0**

Dear Julian,

RWE npower does not support the above proposal. Although it is certainly necessary for Users to be encouraged to proactively monitor their Value at Risk level in relation to their Code Credit Limit, we are uncertain as to how the proposed arrangements can be considered an improvement on the existing ones.


National Grid have proposed that, in the event of a User reaching a Value at Risk level of eighty percent of its Code Credit Limit, the User will be issued with a warning notice by the Transporter calling this fact to the User's attention. However, this notice will be purely for the purpose of information and the Transporter will not be able to apply any sanctions to the User at this point.

In addition, it is proposed that only when the User's Value at Risk level exceeds one hundred percent of the User's Code Credit Limit will sanctions then be applied. These sanctions will take the form of the Transporter being able to reject:

- an application for System Capacity or increased System Capacity,
- a System Capacity Trade, or
- a Supply Point Nomination or Confirmation.

These sanctions will then remain in force until the User provides additional security to the Transporter sufficient to reduce its Value at Risk level below its Code Credit Limit. Under the proposed modification, it is given two Business Days to do this.

If for any reason, the User is unable to do this within the two Business Days stipulated, additional security must then be posted in order to reduce its Value at Risk level to below eighty percent of its Code Credit limit. In addition, for the following twelve months, the value of the security in place will be deemed to be only eighty percent of its


Milk 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

normal value. Furthermore, the Transporter is able in this situation to claim liquidated damages in line with the Late Payment of Commercial Debts (Interest) Act 1998 based on the value of the additional security outstanding.

Firstly, we feel that National Grid has a misconception of the processes and ownership of those processes involved. Rather than the requirement stated in the Draft Modification Report for the User's Code Credit Limit to be equal to or greater than its Value at Risk at any given time, we feel that a clearer definition would be a requirement for the User's Value at Risk to be equal to or lesser than its Code Credit Limit at any given time.

Presumably, as the Code Credit Limit is predicated upon the User's portfolio and projected business with the Transporter, the control of this particular figure sits with the Transporter rather than the User. The User can only monitor the level of its Value at Risk in relation to the Code Credit Limit and post suitable levels of security in line with this. This area of the Draft Modification Report would appear to require further consideration and potential modification on the part of National Grid.

Next, we feel that the institution of merely a warning upon a User reaching a Value at Risk level of eighty percent of its Code Credit Limit is potentially insufficient to incentivise it to take the appropriate steps to deal with the situation rapidly, particularly in light of the fact that the sanctions previously available to the Transporters prior to the User exceeding its Code Credit Limit have been removed.

We are concerned that a smaller User, particularly in a time of high demand, may find itself quickly moving from a Value at Risk level of eighty percent to a level in excess of one hundred percent and thus facing a very short time frame in which to post increased security and avoid penalties.

As mentioned above, a User failing to bring its Value at Risk level below one hundred percent of its Code Credit Limit within two days will then have to bring its Value at Risk level below eighty percent of its Code Credit Limit. In addition, for the following twelve months, the value of its posted security will be deemed to have only eighty percent of its previous value. Therefore, a User would not only have to make a potentially considerable security posting at short notice and pay liquidated damages, it would also have to post one hundred and twenty percent of its previous level of security in order to retain the same Code Credit Limit as before. Would it not be simpler and more efficient, both from a process and risk management point of view, to take preventative steps, as under the current arrangements, to avoid Users exceeding their Code Credit Limit?

While National Grid has made the argument that the proposed arrangements will allow Users to utilise the full extent of their credit security without sanction, this will at the same time increase the level of risk faced by both Users and Transporters. However, it is then mentioned later in the Draft Modification Report that, where a Transporter obtains approval to pass through bad debt, this is likely to be subsequently reflected in increased Transportation Charges which would be payable by Users in the subsequent price control period. The Report then goes on to state that if, after securing such approval, the Transporter demonstrates that a delay in recovery would have a material adverse effect on its financial position, Ofgem may then consider early licence modifications in order that this bad debt can be recovered prior to the next price control period. Thus it would appear that it will be the Users rather than the Transporters who will be carrying a considerably increased level of risk.

If one were to accept National Grid's position that a simple warning is more suitable than the current option of sanctions at levels before the Code Credit Limit is exceeded, our view is that eighty percent Value at Risk is too low a level for such a warning to be sent. Ninety per cent might be more appropriate a figure by virtue of its being considerably closer the one hundred percent limit – this might then be more likely to trigger an immediate response on the part of the User concerned, while eighty percent might not be considered serious enough to do so in a sufficient time frame, thus potentially causing a delay which could lead to issues for all parties concerned later on.

We are also interested to note that National Grid states that, if this proposal is not implemented, the UNC will not reflect the recommendations contained within the Ofgem conclusion document and Transporters will not be obliged to operate this aspect of their credit arrangements in a consistent manner.

Despite this, however, National Grid states on the first page of the Draft Modification Report that, *“whilst the conclusions document advocated that this notice is issued at 85%, National Grid Distribution believes that implementation efficiencies for Transporters can be achieved if this notice is issued at 80%.”*

We fail to see how National Grid can insist that it is imperative to reflect the recommendations contained within the Ofgem conclusion document while at the same time ignoring those recommendations.

Also, we are uncertain as to how a change in the arrangements making it easier for Users to exceed their Code Credit Limit while potentially allowing Transporters to pass through bad debt resulting from this onto other market participants can be seen to further the relevant objectives.

In addition, it is likely that the implementation of the proposed modification would result in extensive changes to processes and procedures for all Users, the cost of which we do not believe can be justified on the basis of the alleged benefits, if there are indeed any.

If you wish to discuss any points raised in this response further, please do not hesitate to contact me.

Regards,

Chris Hill

Gas Codes Analyst