

July 30th, 2010

Mr. Tim Davis
Joint Office of Gas Transporters
First Floor South
31 Homer Road
Solihull
West Midlands
B91 3LT

Response to Proposed UNC Modification 0298 : “Amend and remove UNC TPD Section V3 text inconsistencies, errors and bilateral insurance clause”

Dear Tim,

First Utility supports the above UNC Modification. We feel it is important that the Section V arrangements relating to credit be as clear as possible and that any ambiguity within these arrangements be removed.

In addition, we believe that the amendments proposed in the Modification will ensure that any User whose Portfolio is materially affected in a manner which was not anticipated will have a sufficient time window to alter its credit arrangements without being penalised for this.

Removing the bilateral insurance clause will promote efficiency and remove the ambiguity currently associated with a credit instrument of this type.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

Regulation

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Response to Proposed UNC Modification 0299: “Alignment of portfolio sanctions across UNC TPD Sections V and S”

Dear Tim,

First Utility supports the above proposed UNC Modification. The risk of all market participants should be reduced by the alignment of TPD Sections V3.3.2 and S3.5.3 in relation to the allowed time period following a User’s VAR exceeding 100% of its Code Credit Limit where a Transporter can reject Supply Nominations and Confirmations under TPD Section G.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0300: “Introduction of Fitch as an allowable Credit Rating Agency for the purposes of Code Credit Arrangements”

Dear Tim,

First Utility supports the above proposed UNC Modification. Fitch Ratings is a major credit rating agency and the implementation of this Modification will provide consistency across the gas and electricity credit regimes as Fitch is an accepted credit rating agency under the CUSC rules for the purposes of obtaining an Unsecured Credit Limit.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0301: “Removal of the use of Specially Commissioned Ratings for the purposes of obtaining an Unsecured Code Credit Limit”

Dear Tim,

First Utility supports the above proposed UNC Modification. Given that no User has yet utilised this particular credit tool, coupled with the fact that there are other more cost effective methods of obtaining an Unsecured Credit Limit provided for in TPD Section V, it makes sense that this provision be withdrawn.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0302: “Definition of Regulatory Asset Value (RAV) when calculating Maximum Unsecured Credit”

Dear Tim,

First Utility supports the above Proposed UNC Modification. The use of the most recent Regulatory Asset Value (RAV) figures for each Transporter should allow a more accurate calculation of Users’ maximum unsecured credit limits, thus reducing default risk for all Users.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0303: "Obligation for Users to maintain a Code Credit Limit and at a reasonable level"

Dear Tim,

First Utility supports the above Proposed UNC Modification. A User receiving one hundred percent VAR notices in two consecutive calendar months should raise concerns and it would seem appropriate that an occurrence of this nature should trigger sanctions by Transporters until the Code Credit Limit of the User in question is amended.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0304: “Introduction of a rating table for independent credit rating agencies for use with Independent Assessments”

Dear Tim,

First Utility supports the above Proposed UNC Modification. The introduction of a rating table will add clarity on the way that Independent Assessment Scores are applied and ensure that a consistent approach is taken by the Transporters when deriving these Scores. This should improve access to Unsecured Credit, particularly for smaller Users and especially new market entrants.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0305: “Unsecured Credit Limit allocated through payment history”

Dear Tim,

First Utility does not support the above Proposed UNC Modification.

We do not consider that the amendment of TPD Sections V 3.1.5 and 3.1.6 to withdraw the ability of a User to build up an Unsecured Credit Limit after two years will significantly reduce the risk of other Users and will increase the financial burden for smaller Users, perhaps even to the point of constraining growth.

The relevant UNC Sections currently state that a Transporter may allocate an Unsecured Credit Limit to a User based upon the period of time elapsed that such User has paid all invoices by their due date for payment in accordance with Section S.

As long as a User does not fail to make any payments by the due date, this Unsecured Credit Limit will increase over time to a maximum of two per cent of the relevant Transporter's Maximum Credit Limit after the elapse of a period of five years.

The requirements are stringent. If any payment is missed, the Unsecured Credit Limit of the User in question will be reduced by 50% from the date of this default. If the amount of the missed payment is over £250, or if a User misses any payment following a previous default of less than £250, the User's Unsecured Credit Limit is then set to zero.

We consider that the current penalties contained within the above UNC clauses for missing relatively small payments are more than proportionate in terms of severity to the size of the benefit which is built up over time (as already mentioned, a maximum of two per cent of the Transporter's Maximum Credit Limit).

In addition, the current sanctions listed above also provide a strong incentive for smaller Users without a Credit Rating to maintain a flawless payment record.

Although the Proposer believes that, after two years, a new entrant should be in a position to undertake an Independent Credit Assessment, it is often difficult and expensive for smaller Users to obtain Independent Credit Ratings and almost impossible for them to obtain Approved Credit Ratings. They are therefore required to post cash, which ties up working capital which could otherwise be used operationally. Any assistance which reduces this



burden is welcomed and also serves the function of to some small extent providing a more level playing field between the Big Six and the rest of the market.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0306: “Administration of Shipper Credit Security Contact Details”

Dear Tim,

First Utility supports the above Proposed UNC Modification.

We agree that it is appropriate that a centralised credit security contact register be created by Xoserve which they will then administer and maintain for each Shipper User. This should allow any credit related Transporter sanctions to be carried out quickly and efficiently, thus potentially reducing the risk to other Users resulting from a serious financial default not being dealt with as quickly and efficiently as possible owing to lack of contact details.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

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Response to Proposed UNC Modification 0307: “Alignment of Defaulting User Threshold with Insolvency Act (1986) Threshold”

Dear Tim,

First Utility does not support the above Proposed UNC Modification.

The proposed reduction of the threshold at which a Transporter can take steps to recover debt from a Shipper User by mean of sanction or termination from £10,000 to £750 seems both severe and disproportionate.

We accept the argument made by the proposer that, post Distribution Network Sales, the potential total debt across all five Transporters is £50,000 rather than the original £10,000. However, instituting a £750 threshold for each Transporter would institute a potential total debt across all five Transporters of £3,750 - £6,250 less than the original figure which was borne, at the time, by a single Transporter.

First Utility is amenable to the concept of the threshold being changed in order to reduce Transporter (and thus User) risk relating to potential default. However, we feel that the figure should be changed to £2,000 per Transporter, thus reducing risk while retaining the original total figure.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

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Response to Proposed UNC Modification 0308: “Appropriate use of the terms Surety and Security in UNC TPD Section V”

Dear Tim,

First Utility supports the above Proposed UNC Modification.

It is appropriate that the terminology with UNC TPD Section V be consistent in its definition of credit instruments as sureties or securities.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0309: “Timeframes for establishing and extending Guarantees and Letters of Credit”

Dear Tim,

First Utility supports the above Proposed UNC Modification.

Implementation will reduce the contractual risk of Users by clarifying the timeframes within which credit limits can be assigned and maintained with Shippers. It also reduces the likelihood of Transporters being timed out when claiming against Guarantees and Letters of Credit thus protecting Users from bad debt being reallocated to other Users via Transportation charges.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0310: "Removal of DNO Users from UNC TPD V3.3.4"

Dear Tim,

First Utility supports the above Proposed UNC Modification.

We agree that it is appropriate to remove the requirement for DNOs to provide credit cover equivalent to the cost of twelve months Exit (Flat) Capacity which would impose a disproportionate cost burden upon them.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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Response to Proposed UNC Modification 0311: "Removal of DNOs as Users from UNC TPD V3 and V4"

Dear Tim,

First Utility supports the above Proposed UNC Modification.

We agree that it is appropriate to remove the requirement for DNOs to provide credit cover equivalent to the cost of twelve months Exit (Flat) Capacity which would impose a disproportionate cost burden upon them.

Please do not hesitate to contact me if you have any questions or would like any further information.

Regards,

Chris Hill

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