



August 26th, 2010

Mr. Tim Davis
Joint Office of Gas Transporters
First Floor South
31 Homer Road
Solihull
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Response to Proposed UNC Modification 0315: "To Enhance Section X of the UNC Transportation Principal Document to Improve the Energy Balancing Further Security Process"

Dear Tim,

First Utility does not support the above Proposed UNC Modification.

It is clearly important that participants be properly incentivised to post a suitable level of security in order to cover their Energy Balancing activities. However, the fact that small suppliers without an Approved or Independent Credit Rating are required to post cash in relation to this, rather than being able to provide a Parent Company Guarantee or Letter of Credit as large suppliers are able to do, places them at an immediate disadvantage in this respect.

We are concerned that implementation of this Modification could potentially create a vicious circle whereby a small supplier with no option other than to post cash is then required to post even more cash as a result of the Modification. This would then reduce the funds available to that supplier for operational day to day running of the business which may then cause further difficulties.

We would also like to make the point that small suppliers are often exposed to imbalance due to the difficulty of acquiring non standard clip sizes in the market as well as the difficulty in trading short term due to counterparty credit requirements. In instances where small suppliers are able to find a counterparty which will assist them in hedging their risk, they are once again required to post cash in order to be able to do this.

In the event that a small supplier were to become insolvent, the resulting reallocation of imbalance costs across the sector would be negligible. We therefore feel that the effect of this Modification upon small suppliers would be disproportionate to the risk to the rest of the market of their insolvency and might even hasten that insolvency in certain circumstances. Overall, we would consider the implementation of this Modification to be a barrier to entry which could seriously affect small suppliers' ability to compete in the UK market.

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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