



Bob Fletcher
Modification Panel Secretary
Joint Office
31 Homer Road
Solihull
West Midlands B91 3LT

26 August 2010

Dear Bob,

MOD0315 – To Enhance Section X of the UNC Transportation Principal Document to improve the Energy Balancing Further Security Process

Thank you for the opportunity to respond to this Modification Proposal. This response is submitted on behalf of Corona Energy (CE). For the avoidance of doubt CE supports the implementation of this Modification Proposal.

CE raised this modification proposal following work undertaken by the industry representatives at the Energy Balancing Credit Committee (EBCC). The EBCC has concerns that while obligations existed under the UNC for shippers to balance daily and to provide adequate credit in support of their activities, that there was no incentive to do this in all circumstances. As a small supplier, active in the gas market for over a decade, CE is acutely aware of the risks associated with the energy balancing regime and is concerned that these should be mitigated where possible.

The changes this proposal introduces would only affect shippers that are failing in their duty to fulfil their existing UNC obligations. They will not affect any shipper, large or small, that is acting as a reasonable and prudent market participant or that suffers from an isolated mistake or error that causes them to be cash called.

The EBCC noted that the experience during the financial crisis of 2007-2009 showed that the failure of a large market participant could, if not properly secured, result in failure of a number of smaller participants. The EBCC noted that due to the way that the UNC energy balancing regime socialises unsecured debt meant that GB Shippers would be particularly susceptible if a large participant were to fail.

As this proposal only affects Shippers who receive three FSRs and multiple cash calls within 28 days it would purely impact Shippers that operated a persistent imbalance. CE is aware that it has been argued that such behaviour is a breach of the Shipper's licence obligation to ensure they do not put the system at risk by balancing correctly and therefore Shippers would not risk such behaviour as they could be investigated and fined by Ofgem.

While CE agrees that the threat of Ofgem action could be an incentive for good behaviour it believes this merely strengthens the case for this proposal. The Shipper concerned would have already demonstrated by persisting in its behaviour after two previous FSRs that it was unconcerned of the risk of the loss of its licence.



CE believes that this proposal represents a proportionate solution to the issues involved and that it will incentivise Shippers to provide and retain sufficient security. We agree that this will in turn contribute to the effective management of the risk of default.

If Ofgem would like to discuss any of the points raised in this response in more detail please contact Richard Street via the details below.

Regards,

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