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19th May 2011.
Your Reference:UNC Modification Proposal 0360.

Re: UNC Modification Proposal 0360:
'Removal of Credit Rating Restrictions from Definition of Parent Company'

Dear Bob,

Thank for your invitation seeking representations with respect to the above Modification Proposal for which National Grid Gas Distribution (NGD) would like to offer comments.

NGD would like to provide comments with respect to this Proposal.

Do you support or oppose implementation?

Support/Qualified Support/Neutral/Not in Support/Comments* *delete as appropriate*

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

National Grid Distribution (NGD) has some concerns regarding implementation of this Modification Proposal.

We understand that:

- The credit agencies credit limit and independent assessment scores are based on a customer/supplier relationship.
- The independent assessments do not take in to account the ability of a parent to financially support their trading levels and that of their children.
- The independent assessments are not based on the financial ability of a company to act as a guarantor.

Therefore our view is that implementation of Modification Proposal 0360 could create a risk of overtrading occurring with a possibility of driving companies into receivership. This gives rise to a financial risk to the User community in the event that costs to the Transporter arising from insolvency are 'passed through'.

Notwithstanding the above we appreciate that the existing arrangements could be construed as being disadvantageous to the smaller organisation in that there is an argument that they should have an opportunity to utilise their parent for the purposes of obtaining unsecured credit to the same extent as a credit rated organisation. We can envisage that removing this restriction could in principle reduce the credit costs of smaller Users and therefore facilitate competition in the gas market.

Are there any new or additional issues that you believe should be recorded in the Modification Report

We have not identified any such issues.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

It is not clear that the Modification Proposal facilitates the relevant objectives as set out in Standard Special Condition A11.1 of the GT Licence, specifically:

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

While some Users having parent companies may benefit from having more flexibility in terms of the use of Independent Assessments, this could in turn increase financial risk to the industry arising in the event of insolvency. Conversely larger Users who may be better able to take advantage of the flexibility arising from a credit rated parent could be perceived as having an advantage in terms of the availability of credit tools which in turn may not be consistent with facilitating competition in the gas market.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

Minimal costs would be incurred as a consequence of implementation of this Modification Proposal.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

This Modification Proposal could be implemented with immediate effect.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

NGD has provided legal text with respect to this Modification Proposal. We are satisfied that the text as published by the Joint Office meets the requirements of the Modification Proposal.

Is there anything further you wish to be taken into account?

NGD has not identified any such matters.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information Yours sincerely,

Chris Warner
Network Code Manager, Distribution