

Representation

Draft Modification Report

0360 - Removal of Credit Rating Restrictions from Definition of Parent Company

Consultation close out date: 19 May 2011
Respond to: enquiries@gasgovernance.co.uk
Organisation: **Wales & West Utilities**
Representative: Simon Trivella
Date of Representation: 18 May 2011

Do you support or oppose implementation?

Not in Support

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

Whilst we appreciate that implementation of this Proposal could benefit smaller Shippers by way of the ability to obtain an increased amount of unsecured credit, on balance we do not believe that this is an appropriate change and could be detrimental to the robust transportation credit arrangements currently in place.

Increased levels of unsecured credit would pose a risk to the Transporters and, based on the pass through arrangements of bad debt, this would be passed directly on to other Shippers. We agree with the points that National Grid NTS have raised within their representation¹ in that allowing a Parent Company's Independent Assessment to be used to set the level of a Shipper's unsecured credit does not take into account the ability of a parent to financially support the Shipper, their own trading levels and any other 'child' company.

The proposer has also indicated that one of the drivers for this modification is that the recently implemented credit related UNC modifications have had unintended consequences; we do not believe that this is the case. All credit related proposals have been brought forward following a review of the Best Practice Guidelines (BPG) and, where security tools have been removed from the UNC, this has been done on the basis that it was no longer appropriate for them to be available to Shippers.

¹<http://www.gasgovernance.co.uk/sites/default/files/Rpresentation%20-%20National%20Grid%20NTS.pdf>

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

As referred to above, implementation of UNC modification 0360 would increase the risk to Transporters and subsequently to all Shippers. In previous discussions we have stated that the increased risk to Transporters/Shippers may only be marginal due to the likelihood that the size of companies using Independent Assessments will tend to be at the smaller end of the market. However, this is still an increased risk and we therefore do not support the proposal.

The risk associated with implementation of this modification proposal would be significantly increased should proposal 0375 also be implemented. We appreciate that these proposals are not dependant on each other and should be evaluated on their own merits, however, the prospective timeline for proposal 0375 is likely to result in any analysis being complete prior to a decision by the Authority on this proposal. We would therefore encourage the Authority to consider this point when making their decision.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Although this modification proposal may allow Shippers to obtain 'cheaper' forms of unsecured credit it will also increase the risk of exposure to bad debt for other Shippers. On balance we believe this risk outweighs any financial implications for smaller Shippers and therefore does not further the achievement of this relevant objective.

Impacts and Costs:

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

We would be not be faced with any material implementation or ongoing operational costs if this modification were to be implemented.

Implementation:

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

This proposal could be implemented fairly promptly following a direction from the Authority.

Legal Text:

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

Whilst the legal text does deliver the intent of the modification we believe a slight amendment to the proposed UNC TPD Section V 3.1.3 (b) would be beneficial for absolute clarity:

3.13(b) Subject to paragraph 3.1.3(c), where a Parent Company with an Approved Credit Rating or a Qualifying Company provides surety in respect of a User in the form of a Guarantee ((the "Surety Provider"), then the Approved Credit Rating of such Surety Provider may be used in place of the User's to calculate such User's Unsecured Credit Limit in accordance with the table set out in paragraph 3.1.3 (a).

We would also like to bring Consent to Modify (CtM) 040² to the attention of the Authority. If this CtM is approved this will make changes to UNC TPD Section V that will then not be reflected within the proposed legal text of modification 0360. The same issue will apply if this modification were to be approved and subsequently CtM 040 was approved, the baseline legal text would be incorrect and could lead to implementation issues (as we saw with the timing of modification proposal 0306 and hence the requirement for CtM 040). We would therefore request that the Authority consider this matter and alert the Transporters (or the Code Administrator) should any revised legal text be required for either modification 0360 or CtM 040.

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

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

There are no further matters that we wish to be taken into account.

{By email}

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²<http://www.gasgovernance.co.uk/sites/default/files/Consent%20to%20Modify%20C040.pdf>