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1<sup>st</sup> November 2006

**Re: UNC Modification Proposals 109, 111, 112, 113 & 114**

Dear Julian

Thank you for the opportunity to comment on the above UNC Modification Proposals.

As each Modification Proposal is based on Transportation Credit Arrangements, Wales & West Utilities would like to submit a single response and this is detailed below. Each Modification Proposal has been reviewed on the basis of the extent to which it better facilitates the achievement of the Relevant Objectives specified in the Gas Transporters Licence (Standard Special Condition A11.1 & 2), the impact on Transporters (working practices, financial exposure) and the alignment with the Ofgem "*Best practice guidelines for gas and electricity network operator credit cover*" document.

**0109: Acceptable Security Tools Available to Users for Transportation Credit Arrangements**

Wales & West Utilities are supportive of this Modification Proposal (109).

The acceptable security tools included within this modification are currently utilised by Wales & West Utilities, therefore inclusion within the UNC will clarify and reinforce their suitability. We believe that this will enable recognition of best practice and help ensure that there is no inappropriate discrimination and no inappropriate barrier to Shippers wishing to enter the market place.

**0111: Management of Users Approaching and Exceeding Upper Limits of Credit Limit**

Wales & West Utilities are not supportive of this Modification Proposal (111) as we have serious concerns regarding the impact on all parties if implemented.

In allowing a user to reach 100% of limit, and potentially being able to trade for a further 7 business days, before any curtailing action can be taken by a Transporter, will significantly increase the risk to that Transporter and, potentially, the wider community on the basis of pass

24 hour gas escape number  
Rhif 24 awr os bydd nwy yn gollwng

**0800 111 999\***

\*calls will be recorded and may be monitored  
caiff galwadau eu recordio a gellir eu monitro

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through. Wales & West Utilities seek clarification from the Authority on the impact of some, or all, of the current Modification Proposals not being implemented and the consequent ramifications in respect of bad debt pass through approval. However, Wales & West Utilities strongly believe that any ability to obtain pass through should not influence any decision on determining acceptable levels of risk for any party.

In addition to the increased risk there will be an increase in administration for Transporters in order to identify and monitor Shippers operating under the potential 80% limit rather than the generic 100%.

Wales & West Utilities understand that the percentage of limit is based on a users 'true' indebtedness, as defined in UNC Section V 3.2.1(b), and will not be replaced by Value at Risk as defined in the Modification Proposal 114. Should Modification Proposal 114 be implemented, these differing calculations will result in the maximum allowable limit being reached on significantly more occasions. This obviously increases both risk and administrative burden on all parties involved.

The proposal also includes a notice period of 1 month for provision of additional security following a 'material change' to a Transporters Transportation Charges. Wales & West Utilities do not see any need for this provision as more than adequate notice is already given through the current charging notification procedures.

Modification Proposal 0102 & 0103, relating to Energy Balancing Credit, seek to shorten timescales in respect of limiting risk whilst this Proposal has the opposite effect and therefore the intentions are in conflict.

#### **0112: Aggregation of Credit Positions or Use of Group Ratings**

Wales & West Utilities are supportive of this Modification Proposal (112).

The proposal matches current custom and practice in line with Wales & West Utilities' Code Credit Rules. Inclusion within UNC will reinforce these arrangements and ensure consistent application by all parties.

#### **0113: Availability of Unsecured Credit Based on User Payment Record or Independent Assessment**

Wales and West Utilities are not supportive of this Modification Proposal (113) and have serious concerns regarding the impact on all parties if implemented.

Current UNC controls with regard to late payment have the effect of masking cash flow issue warnings that would most likely be evident in an unregulated commercial environment. Gas prices can be volatile and smaller users, who are likely to use the proposed payment record method of security, are at most risk of price fluctuations. Consequently, Wales & West Utilities do not believe that a Users ability to pay promptly in the past is necessarily an indication of their ability to cover future debts.

The use of both Payment Record and Independent Assessment would considerably increase unsecured risk. The administration burden on Transporters will be significantly increased if

Payment Record is utilised as recalculation is required on a monthly basis. We regard to Independent Assessment, Wales & West Utilities do not support the 80% cost burden on Transporters and also note that this is inconsistent with the cost apportionment within Modification Proposal 0107.

**0114: Quantification of Value at Risk (VAR) to Determine Maximum User Credit Security Requirements**

Wales & West Utilities are not supportive of this Modification Proposal (114) as we have serious concerns regarding the impact on all parties if implemented.

This Modification Proposal does not address the issue which was the basis for the non-implementation of Modification Proposal 0032 in January 2006. By adding 15 days usage to an invoiced month's value this will only ever cover 45 days trading. The capacity invoice due date exposes Transporters to at least 50 days risk. This will have the effect of unnecessarily triggering the notification threshold a few days prior to due dates and subsequently generate additional administration for all involved. With an increase in notifications any true cash flow warnings could be overlooked as they may not be distinguishable from previous notification occurrences.

The proposal seeks to use the previous invoiced month's value as the basis for the Value at Risk (VAR). By the nature of the invoicing schedule this has the effect of making the limit calculation misrepresentative as it relates to a period 2 months prior. This will overstate the VAR in the spring and summer months and understate in the autumn and winter months. Users will have the ability to flex their limits monthly with thereby increase administration for Transporters and Users. The limits will be closely aligned to prior month's usage and at certain periods this will create issues if portfolios are increased.

In conjunction with Modification Proposal 0111 the above issues will be compounded and lead to many Users exceeding notifiable thresholds for the majority of month's throughout the year.

We believe that 'peak' trading values, as currently used, provide an acceptable level of risk but appreciate that this results in excessive security being provided by some Users on occasions. If the current proposal ("*Distribution Networks Pricing Consultation Paper DNPC 01*") is implemented it will have the effect of smoothing the current weather based profile thus reducing the peak value and consequently the risk of excessive security.

Should you have any questions relating to these Modification Proposals please do not hesitate to contact me.

Yours sincerely

Simon Trivella  
Commercial Support Manager  
Wales & West Utilities