

MODIFICATION PROPOSAL 0085

SHORT TITLE: Secured Credit Limit - Reduction to L100,000

DATE: 3rd October 1996

PROPOSED IMPLEMENTATION DATE: 1st January 1997

URGENCY: Urgent.

JUSTIFICATION:

This modification is being proposed following the Energy Balancing Credit Committee meeting of 1st October 1996. At this meeting Shippers reiterated their support for a reduction in the Secured Credit Limit from L250,000 to L100,000 (previously agreed at the Energy Balancing Credit Committee meeting of 6th September 1996) and agreed that the proposal should be resubmitted to Ofgas on an urgent basis.

The move to reduce the limit was agreed necessary to encourage "secured" energy balancing activity and therefore reduce Shippers' exposure to default. This was seen by the Committee as a logical evolutionary step as some members expressed a wish to see an unsecured limit of zero. It was also agreed that the level of community risk would be continually reviewed by the Committee.

By retaining a Credit Limit at this reduced level of L100,000, many of the smaller Shippers will still be able to participate in the energy balancing regime without needing to obtain another form of security. This is because their energy balancing requirements are well within this limit and the move to daily energy balancing with tighter tolerances should offset the impact of higher levels of trading during the winter months.

The implementation date of 1st January 1997 is proposed by the Energy Balancing Credit Committee. This represents a compromise in so far as members were keen for a change in the Limit to be introduced as soon as possible, in order to reduce the community's exposure to default, but accepted that two months represented a reasonable amount of time for Shippers to put in place any security made necessary by the modification.

CONSEQUENCE OF NOT MAKING THIS CHANGE

- The exposure of the Shipper community to the risk of default remains at the L250,000 limit.
- The present system is discriminatory relying on subsidisation of small and medium sized Shippers in the name of competition
- Shippers will not be encouraged to securitise their operations at levels appropriate to their activities with resultant stress on cash calls.

AREA OF NETWORK CODE CONCERNED

Network Code Supplement 2.2.2

NATURE OF PROPOSAL

This modification would reduce the "Community Risk" Secured Credit Limit from L250,000 to L100,000 with effect from 1st January 1997.

PURPOSE OF PROPOSAL

The modification proposal has several advantages:

- the modification will reduce Shippers' exposure to default,
- Shippers will be encouraged to manage their energy balancing more commercially
- Shippers will be protected from the risk of new Users entering the market without the required level of security to the ultimate benefit of the consumer,
- the lower level of Community Risk Limit is more appropriate to daily balancing
- the introduction of a lower limit will encourage the securitisation of activities, particularly those Shippers whose level of activities clearly exceeds the existing Community Risk Limit,
- it will not discriminate against the small Shippers or constitute a barrier to entry as their level of operations does not normally exceed this limit.

IDENTITY OF PROPOSER'S REPRESENTATIVE: Chris Train

PROPOSER: Chris Train

SIGNATURE :

POSITION: Energy Balancing Manager

COMPANY : TransCo