TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0572

""The provision of Letters of Credit for energy balancing credit cover""

Version 1.0

Date: 06/08/2002

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Under current provisions within the Network Code, gas shippers are allowed a variety of different ways to secure credit cover. These include an Approved Credit Rating (ACR) from a recognised credit rating agency or a Parent Company Guarantee (PCG) or other guarantee from a company that has an ACR.

The recent failure of two large energy companies has highlighted the fact that these provisions are not very robust, leading to recent discussions by Transco, Ofgem and the community on ways of improving the credit regime. The use of Letters of Credit (LoCs) would be an effective way to do this, as highlighted in the recent Ofgem consultation "Arrangements for gas and electricity supply and gas shipping credit cover". The use of LoCs would also have the advantage of aligning the gas Network Code with the electricity Balancing and Settlement Code (BSC). With the recent Enron failure, the BSC arrangements proved to be successful in securing funds for imbalance exposure, in contrast to the gas regime where shippers face significant energy imbalance debts.

Nature of Proposal

All shippers are required to provide security to support their energy balancing activity, namely Letters of Credit from approved banks with an "Aa3" or higher credit rating, or cash. This should be enough to cover all their anticipated exposures. As with the BSC, this approach is non-discriminatory as it applies to all market participants irrespective of size. Currently, unrated entities may have a PCG from a parent, but if the parent defaults there is no protection from debt accruing. This proposal is therefore for all such entities to lodge Letters of Credit.

However, Transco would still need robust systems to immediately act if the LoCs or other credit support was insufficient.

Purpose of Proposal

The purpose of this proposal is that all shippers will have a reduced exposure to balancing charges caused by any unrecoverable energy balancing debt incurred by another shipper. It is estimated that an additional £0.7m of Independent Energy's pre-receivership energy balancing debt and up to £10m of Enron's energy balancing debt would have been secured if Letters of Credit had been applied.

Consequence of not making this change

If the status quo remains shippers may be liable for energy balancing debts accruing if there are any further shipper failures in the future.

Area of Network Code Concerned

Section X

Proposer's Representative

JANE LOUISE BUTTERFIELD

Proposer

Powergen Uk Plc

Signature

....