

19 September 2006



Julian Majdanski
Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands B91 3QJ

Dear Julian

Re: Draft Modification Report 0107

Corona Energy ("Corona") wishes to submit the following in response to the above draft modification report.

Introduction

Corona is unable to fully support the implementation of this Modification Proposal as drafted. Corona understands and has sympathy with the overriding objective of the proposal, that being to reduce discriminatory practice in relation to the provision of unsecured credit. The Modification Proposal sets out a process by which those Users which have not been provided with an Approved Credit Rating can obtain a Specially Commissioned Rating for the purposes of obtaining unsecured credit from the relevant Transporter.

The Modification Proposal states that the Rating must be monitored and assessed at least annually and that the User should bear the costs associated with obtaining and assessing the Rating. The legal text reflects this provision and in addition exposes the User with the Specially Commissioned Rating to the provisions contained in Section V paragraph 3.2.4 (the review and revision of the Rating).

Corona's concern lies not with the ability of the User to obtain a Specially Commissioned Rating, but the process by which it is reviewed. Publicly provided ratings are subject to continual review by those parties which have awarded the rating and as a consequence may change on a frequent or short term basis. In our view the Specially Commissioned Rating is afforded greater stature on the basis that it is not continually verified and only reviewed on an annual basis. To this effect, Corona does not understand the reference to daily monitoring, as provided for in the legal text, as this is not carried out by the Ratings Agency, but we imagine by the User and/or the Transporter. We would suggest, therefore, that the Specially Commissioned Rating swings the balance firmly in favour of those Users operating under them and it could be argued discriminates against those Users which operate under the more traditional publicly provided ratings. This is specifically highlighted in

Section V paragraph 3.2.4 (c) which can only apply to Approved Credit Ratings on, in most instances, a more than annual basis:

“3.2.4 A User’s Code Credit Limit may from time to time be reviewed and revised.....”

3.2.4 (c) where any published credit rating of the User or any person providing surety for the User is revised downwards”

In summary, Corona believes that due to the fact that Specially Commissioned Ratings are not continually reviewed by the Commissioning body then there is justification to assert that there is increased financial risk associated with those parties operating under them. This maybe rectified by, for example, altering the amount of Unsecured Credit Limit which maybe awarded to a User which has obtained such a Rating. Corona does not have any specific proposals in this regard, however, we suggest it may be worth considering two potential ways forward:

- a) applying a fixed percentage reduction to the Maximum Unsecured Credit Limit reflecting the level of risk associated with the less frequent independent Ratings review e.g. A User awarded a Specially Commissioned Rating of ‘A’ can only obtain 50% of the 40% Maximum Unsecured Credit Limit (as provided for in the table presented in paragraph 3.1.6 of Section V). In this example the User’s Unsecured Credit Limit would be 20% of the Maximum Unsecured Credit Limit; or
- b) the Specially Commissioned Rating has a lower status than that provided in the more traditional manner. By way of example and with reference to the table stated above, a User with a Specially Commissioned Rating of ‘A’ for the purposes of obtaining an Unsecured Credit Limit would be treated as equivalent to a BBB+ rating in the table.

Corona believes that this Modification Proposal although sound in principle is unbalanced in its treatment of the different forms of Rating. We believe that due to the fact that Specially Commissioned Ratings are, by their very nature, a snapshot of a User’s financial viability and not continually reviewed they generate greater risks than those obtained through the Approved route. For this reason Corona cannot support the implementation of this proposal as drafted in its present form.

Modification Report Sections

Better Facilitating of the Relevant Objectives

Corona believes that due to the reasons stated above concerning discrimination and increased risk of default the Modification Proposal would not better facilitate the relevant objectives.

Impacts on Security of Supply, Total System operation and industry fragmentation

None

Implications for Transporters

a) operation of the system

None

b) development and operating costs

None

c) cost recovery

None

d) consequences on price regulation

None

Impact on contractual risk for transporter

For reasons stated above concerning the irregular assessments of the Specially Commissioned Ratings then the level of risk, when compared to equivalent Approved Ratings, is greater

Impact on UK Link and other Systems

None

Impacts on Users, including contractual risk etc...

Unlikely to have any significant impact except that it could be seen as discriminatory against those Users with an Approved Rating.

Impacts on Terminal Operators, Consumers, Connected Systems Operators, Suppliers, Producers, and any non-Code Parties

None

Consequences on legal and regulatory obligations for all Parties

None

Advantages of the Modification Proposal

- Better aligns with Best Practice Guidelines
- Allows previously excluded Users access to Unsecured Credit.



Disadvantages of the Modification Proposal

- Increase in the value of unsecured credit
- Greater risks associated with unsecured credit obtained in this manner
- Discriminates against Users with Approved Credit Rating

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely

A handwritten signature in purple ink, appearing to read "Gary Russell".

Gary Russell
Finance Director