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Dear Julian

Thank you for providing SGN with the opportunity to comment on the following Modification Proposals. Although they have been raised as separate proposals, they have been progressed on the same timescale so that they could be considered together. Some proposals have been presented as alternatives to others. As such SGN has chosen to submit a combined response.

**Modification Proposal 0023: Re-assessment of User Unsecured Credit Limits (UKD)**

Modification proposal 0023 suggests that a Transporter should set its maximum unsecured credit limit based on 2% of its Regulatory Asset Value. Whilst SGN supports this modification proposal and the suggested ratings over and above competing proposals 0031 and 0041 we do not believe it addresses all associated aspects of the Best Practice Guidelines. As such SGN gives its qualified support.

Whilst we believe the proposed maximum unsecured credit limit available to a User for transportation of £250m is broadly equivalent to 2% of the Total RAV across all LDZs, SGN notes that clearly some Users will have higher concentrations of business in some LDZs. We note that a User who does not have geographical diversity could be adversely affected by such proposal.

We note that paragraph 3.10 of Ofgem's Best Practice Guidelines Conclusions document suggested that where a counterparty benefits from a suitable Parent Company Guarantee, the unsecured credit limit assigned to that counterparty should be based on the credit strength of the guarantor. This has not been addressed in this proposal. We believe it should be explicit in the UNC.

Furthermore, this proposal does not address the issues raised by Ofgem under paragraphs 3.12 to 3.24 of the BPG Conclusions document, relating to unrated companies. Ofgem indicated that an unrated company does not necessarily pose a high risk of default. Ofgem concluded that an unsecured credit allowance for unrated counterparties could be determined using payment records.

SGN is concerned that Ofgem has previously indicated that failure to adhere to all Best Practice Guidelines could significantly affect a Transporters ability to achieve 100% pass through of bad debt.

**Modification Proposal 0031: Re-assessment of User Unsecured Credit Limits (REW Power)**

**Modification Proposal 0041: Re-assessment of User Unsecured Credit Limits (Total Gas and Power)**

SGN does not support the proposals in modification proposal 0031 or 0041. As the table in Mod 41 shows, the likelihood of default where there is a credit rating of BB is much higher than with BBB ratings. We do not believe that it is appropriate or efficient to give a User with a BB- rating a 10% limit, compared to a 15% limit for company with a BBB- rating when they are up to 13 times more likely to default. SGN believes it would be more appropriate to amend the table in Modification Proposal 0041 such that "BBB/Unrated" would be replaced with "BBB". There should not be unsecured credit to any User with a rating lower than BBB-.

**Mod 0024: Independent Security provision by an entity with an Investment Grade Rating of "A" or above**

SGN does not support this proposal. We do not believe a User with a rating below BBB- which is required to secure the full amount should be able to do so with an A2 rated provider. SGN would normally only allow an A2 User 40% of the MUCL. We believe it would be more appropriate to allow security from AAA/AA rated providers.

**Mod 0025: Notice Period for Credit Limit Downgrade and Remedies for Non-compliance**

SGN is generally supportive of the timetable and proposed interest rates but disagree with the amendment to 3.2.4 which keeps notice at 30 days under (d). We believe that (d) should be reduced to 2 days along with (c).

**Mod 0026: Application of Charges consistent with Late Payment of Commercial Debts (interest) Act 1998**

SGN supports this proposal. We believe the rate proposed for late payment is appropriate and should act as a reasonable deterrent to late payment.

**Mod 0027: Right of Set Off under UNC**

SGN is supportive of this modification proposal in so far as it seeks to extend provisions to allow offset of invoices to Transportation invoices, as was practice prior to DN sale.

**Mod 0032: Adjustment to number of days in VAR calculation to bring the Code Credit Rules into line with the Best Practice Guidelines, conclusions document Feb 2005**

SGN does not support this proposal. We believe that given current billing cycles the existing 60 days should be retained for VAR calculations. Under current billing cycles an invoice is raised for the calendar month and, in accordance with UNC Section S, 3.1.2 (a) (ii) has an Invoice Due Date of "the 20th Day after the last Day of the Billing Period....". The assumption should be that default will happen on the worst possible day. SGN believes that this should reflect the 31 days + the full 20 days which is the normal payment cycle plus at least a further 5 business days / 7 calendar days to allow for the provisions of Mod 0025. This gives a total of at least 58 days. As such SGN believes the existing 60 days is justified in comparison to the proposed 46 days.

**Mod 034: Netting off of payments and credits relating to transportation charges.**

As sated under modification proposal 0027 SGN is supportive of this proposal in that it seeks to allow offset of invoices to Transportation invoices. However SGN notes that some parties have

indicted they would have difficulty accommodating such arrangements. As such it is suggested that this arrangement should be optional and not mandatory.

We hope these comments are helpful.

Regards

Beverley Grubb