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Dear Julian,

RE: Draft Modification Report 0111: "Management of Users Approaching and exceeding Upper Limits of Credit Limit".

Thank you for the opportunity to comment upon this modification proposal.

This proposal contains a range of measures. Whilst we either support or are neutral in respect of certain aspects of this proposal, there is a further aspect which we believe places unwelcome additional risk on the balance of the shipping community. Consequently, British Gas Trading (BGT) does not support this modification proposal. Our thinking is set out in more detail below.

We are neutral about the change in levels at which a notice will to be sent by a transporter to the relevant party. Removing the current trigger levels – 70% and 85% - and replacing them with a single notice at 80%, will mean slightly later notice to potential defaulters than is currently the case. However, we believe that 80% is still an appropriate level for such a notice, and that as a result of this change the additional risk to the shipping community is negligible.

We do not believe that it is appropriate for the transporter to wait until a party has exceeded 100% of its credit limit before it is able to take steps to limit that party's ability to incur further debt. This proposal might have been more acceptable were Users required to provide security to cover peak trading levels. However, modification proposal 114 - Quantification of Value at Risk (VAR) to determine maximum User Credit Security Requirements – seeks to reduce the amount of security required of Users.

This development therefore raises the possibility that, particularly coming into a winter period, a party could be significantly in excess of their credit limit before the transporter can take preventative action. For example, the party may be at 99% of their credit limit, only to then receive a further, large invoice. It does not seem to us to be prudent to allow such a situation to arise.

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We support the proposal to reduce a party's credit limit to 80% of its previous limit, for a period of 12 months, where that party has breached its credit limit and subsequently failed to provide the required additional security within the allotted time. We also agree with the proposal that a transporter should recover liquidated damages in the event that a party fails to provide additional security as required. However, as set out above, we believe that the sanction available to the transporter, namely the ability to suspend registration of supply points, comes too late in the process.

We are neutral on the proposal to provide one month's notice to a User to increase their required security as a result in an increase in transportation charges. Whilst we recognise that one month may not be considered to be a generous notice period, in reality increases in transportation charges will be sign posted well in advance.

On the face of it, 0111 would appear to facilitate the securing of effective competition between relevant shippers by lowering barriers to market entry. However, we believe that the detriment to the balance of the industry brought about by a lowering of standards in certain areas, in particular delaying a transporter's sanction until after a party exceeds its credit limit, outweighs any such benefit.

Please don't hesitate to contact me if you have any queries about this response.

Yours sincerely

Chris Wright
Contracts Manager