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Modification Panel Secretary  
Joint Office of Gas Transporters  
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02 November 2006

Dear Julian,

**Re: Modification Proposals:**

- 0109** Acceptable Security Tools available to Users for Transportation Credit Arrangements.
- 0111** Management of Users Approaching and exceeding Upper Limits of Credit Limit.
- 0112** Aggregation of Credit Positions or Use of Group Ratings.
- 0113** Availability of Unsecured Credit Based on User Payment Record or Independent Assessment.
- 0114** Quantification of Value At Risk (VAR) to determine maximum User Credit Security Requirements.

Thank you for providing SGN with the opportunity to comment on the above modification proposals.

In so far as each Modification Proposal seeks to implement Ofgem's published recommendations in its conclusions document 'Best practice guidelines for gas and electricity network operator credit cover' 58/05, SGN is supportive of proposals. SGN believes implementation will provide greater transparency and ensure consistency across Transporters and consistency in credit processes. This should ultimately better facilitate the relevant objectives relating to securing of effective competition between relevant shippers.

**Modification Proposal 109: Acceptable Security Tools available to Users for Transportation Credit Arrangements.**

SGN supports this proposal.

We agree with the principals set out in this modification proposal and agree that all the security tools identified are acceptable. The proposal will ensure the UNC is aligned with Ofgem best practice guidelines.

We do not anticipate any problems in implementing this proposal. We do not believe there will be any significant costs associated with implementation and there should be no change to contractual risk as the proposal is effectively formalising current practice.

**Modification Proposal 0111: Management of Users Approaching and exceeding Upper Limits of Credit Limit.**

SGN fully supports this proposal. We believe that overall it will improve efficiency of current processes and arrangements ensure continued protection against defaulting Users and help secure effective competition.

SGN believe the removal of two notifications currently sent out to Users at 70% and 85% of their indebtedness and replacing it with one notice at 80% will improve efficiency and reduce administration work for both the User and the Transporter. Whilst the Ofgem best practice guidelines recommended that a notice should only be issued at 85%, SGN believes 80% is a reasonable compromise striking a balance between too early or too late a notification.

SGN also supports the proposal that if a User reaches 100% of the value to their credit limit, there will be a requirement for additional security to reduce it to 80% within two Business Days. Whilst some parties have indicated this is extremely tight, SGN believes it is appropriate as parties should be capable of monitoring their own positions and taking appropriate action to mitigate any risk. SGN also believes quick action is necessary to protect other Users. For the same reason SGN supports proposals that would ensure that where additional security is not provided, the Transporter could claim liquidated damages and the sanctions proposed. SGN also notes that it has been proposed that one month will be allowed for Users to post additional security where this arises as a consequence of a material change in transportation charges of +/-20%. SGN notes that the UNC already requires extensive notice for changes in charges. As such it is not clear that a further 1 month is necessary.

SGN notes that removal of sanctions at an earlier stage potentially increases risk to Transporters and other Users. We also note that the proposer has identified that implementation would incur costs of making significant changes to operational processes and procedures. SGN believes changes would be minimal and could be implemented within 3 months following direction from the Authority.

**Modification Proposal 0112: Aggregation of Credit Positions or Use of Group Ratings.**  
SGN supports this proposal. SGN believes the proposal is consistent with the Ofgem best practice guidelines.

We believe implementation would improve transparency and would ensure there is consistency across all transporters and users.

**Modification Proposal 0113: Availability of Unsecured Credit Based on User Payment Record or Independent Assessment.**

SGN is supportive of this proposal to the extent it reflects the Ofgem best practice guidelines. However SGN notes that the methodology proposed will enable a Shipper with 5 years perfect payment history to have a significant amount of credit that may bear no relation to the amounts that have been paid e.g. a Shipper paying £1,000 per month, will promptly secure an £800,000 credit limit over the fullness of time. We are concerned that this is against the principles behind the best practice guidelines in that it potentially increases risk to community and ultimately customers. We believe further consideration should be given to capping the "Aggregate Credit Allowance" at the lower of the relevant percentage of the "Transporters Maximum Credit Limit", in accordance with the table at top of Page 2, and the maximum invoice during the previous twelve month period multiplied by 1.5 to allow for the 46 day VAR period.

**Modification Proposal 0114: Quantification of Value At Risk (VAR) to determine maximum User Credit Security Requirements.**

SGN fully support this proposal we believe that it is entirely consistent with Ofgem best practice guidelines and current practices as such SGN does not believe there would be any implementation costs or issues with timescales.

We hope you find these comments helpful.

Yours sincerely,

Via email

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