

Bob Fletcher
Modification Panel Secretary
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Dear Bob,

UNC Modification proposals 0298 - 0311 - Suite of credit related Proposals raised following Review Group 0252

Thank you for the opportunity to respond to these Modification Proposals. This response is submitted on behalf of ScottishPower Energy Management Ltd (SP) and is in respect of each of the proposals included in this suite of proposals.

SP appreciates the work of Review Group 0252 and believes that it has produced a suite of well developed and proportionate Modification Proposals that revamp the UNC credit arrangements to reflect current best practice, minimise the risk of unsecured bad debt and so ensure the provision of appropriate credit cover to protect the UNC user community and ultimately the consumer.

SP is satisfied that each of these proposals (with the exception of MOD0311) would meet the relevant licence objectives, particularly with regard to Standard Condition A11.1(d) and the securing of effective competition and/or Standard Condition A11.1(f) and the promotion of efficiency in the implementation and administration of the code. Additionally they will promote efficiency in the implementation and administration of the Uniform Network Code. Accordingly SP is supportive of each of these Modification Proposals but would expand upon that comment as follows: -

MOD0298: Amend and remove UNC TPD Section V3 text inconsistencies, errors and bi-lateral insurance clause

SP supports this Proposal and is satisfied that if implemented it will remove inconsistencies and typographical errors, as well providing appropriate clarification where required.

MOD0299: Alignment of portfolio sanctions across UNC TPD Sections V and S

SP supports this Proposal as it would provide consistency between the respective provisions, reducing the possibility of confusion and reducing the likelihood of bad debt accrual.

MOD0300: Introduction of Fitch as an allowable Credit Rating Agency for the purposes of Code Credit Arrangements

SP supports this Proposal as it will increase the options available to parties by providing Fitch, which is already recognised elsewhere within the energy sector as a comparable agency, as an alternative approved agency to Standard and Poor and Moody, while still providing the requisite protection and assurance.

MOD0301: Removal of the use of Specially Commissioned Ratings for the purposes of obtaining an Unsecured Code Credit Limit

SP agrees that this type of rating is not subject to the same level of ongoing monitoring, scrutiny and maintenance as published rating. Accordingly it cannot provide the same level of assurance or protection as published ratings and therefore would pose an unnecessary risk. Accordingly SP supports this proposal that seeks to remove this provision.

MOD0302: Definition of Regulatory Asset Value (RAV) when calculating Maximum Unsecured Credit

SP supports this Proposal and believes it brings a greater degree of clarity and certainty to calculating a User's maximum unsecured credit limit.

MOD0303: Obligation for Users to maintain a Code Credit Limit and at a reasonable level

SP supports this Proposal as it would ensure that credit limits are set at a level that would offer appropriate protection, while also incentivising Users not to breach existing limits and to manage credit issues more proactively.

MOD0304: Introduction of a rating table for independent credit rating agencies for use with Independent Assessment

SP supports this Proposal as it would provide clarity and consistency on how these ratings and rating agencies would be applied, drawing upon lessons learned from elsewhere in the energy sector.

MOD0305: Unsecured Credit Limit allocated through payment history

SP supports this Proposal. Whereas payment history may be a useful component part of any credit assessment, it must still be taken only in conjunction with other factors and not in isolation. SP believes that the Proposal is proportionate and does not unduly disadvantage users who currently utilise this option.

MOD0306: Administration of Shipper Credit Security Contact Details

SP supports this Proposal as it should help to ensure that notifications are appropriately targeted so that parties are in the best position to act timeously in response, and so minimise any potential exposures.

MOD0307: Alignment of Defaulting User Threshold with Insolvency Act (1986) Threshold

SP supports the intention of this Proposal to align the UNC requirements with other statutory provisions, thus bringing consistency in application and avoiding any potential confusion in applicable provisions. However there appears to be an inconsistency in the respective payment periods, with the UNC quoting a 15 day period whereas the statutory time limit is 21 days. Presumably this will be addressed during the modification process.

MOD0308: Appropriate use of the terms Surety and Security in UNC TPD Section V

SP supports the intention of this Proposal to bring clarity to the use of these terms as they appear at various places in the UNC. However we believe it would be simpler to define each term and thereafter use that appropriately within the respective definitions of the various instruments available to Users.

MOD0309: Timeframes for establishing and extending Guarantees and Letters of Credit

SP supports this Proposal. In some respects it reflects current best practice and should ensure that there should be continuity in cover with no break in provision between applicable dates, thus limiting any potential exposure to bad debt.

MOD0310 & 0311: Removal of DNO Users from UNC TPD V3.3.4

SP supports Proposal 0310 on the basis that there are no significant issues in terms of DNO security for such capacity bookings, as adequate protection already exists via the Energy Act 2004. As such to retain the current provisions would simply result in unnecessary levels of over-securitisation being maintained.

However, SP would not support MOD0311, which is effectively an alternative to MOD0310 and seeks to extend the removal of DNOs from all UNC credit requirements. SP is not convinced by the justification provided for that extension and believes that this Proposal goes too far in unnecessarily exposing Users.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact me.

Yours sincerely

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