

25 June 2007



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

Dear Julian,

**Re: Draft Modification Reports 0145**

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

**Introduction**

By way of introduction Corona wishes to emphasise key observations made in our response to Ofgem's Consultation Document "*Recommendations for best practice guidelines for gas and electricity network operator cover.*" Our response detailed the principles we believe should be adhered to when considering any modification to the credit rules, and are reproduced as follows:

*"A number of issues must be taken into account when considering whether changes to the existing credit arrangements will further facilitate competition by lowering barriers to entry but without simultaneously undermining confidence in the efficient operation of the gas and electricity markets.' We believe it is important to distinguish between the two aspects of this statement.*

- I. Providing/increasing unsecured credit to smaller/unrated companies will lower barriers to entry.*
- II. The greatest potential to undermine confidence in the gas and electricity markets will occur due to the failure of a large shipper/supplier, of which there have been a number of such failures in the last few years (Independent Energy, Enron, and TXU Europe). Failure of small shippers/suppliers has limited financial or operational impact.*

*In addition, our assessment of the recommendations of the Workgroups and Ofgem has taken into consideration the following:*

- any changes to the credit arrangements should ultimately be for the benefit of the customer, either through a more competitive market, or a more secure and stable environment, or both;*

- *As a regulated industry, the Network Operators (“NWO”) do not have the option to refuse to trade with a counterparty.”*

In light of this, Corona evaluations as to the merits of the various Modification Proposals are based on the fulfilment, or otherwise, of the basic principles which we believe are fundamental to the operation of the credit arrangements and by extension the competitiveness of the UK gas markets.

In summary, Corona’s assessment of the individual Modification Proposals will, in addition to testing them against the Relevant Objectives, consider the following impacts:

- Reduced barriers to entry for “smaller” companies
- Increased potential for failure for “larger” companies
- Produce benefits to customers
  - i. more competitive markets; and/or
  - ii. more secure and stable environment

Hereafter, the measures detailed above will be termed the “Corona Objectives”.

### **Draft Modification Report 0145 – Management of Users Approaching and Exceeding Code Credit Limits**

Corona does not support the implementation of this Proposal.

There are obvious cross-overs with Modification Proposal 0144 in relation to the assessment of Value at Risk and subsequent mitigating actions/remedies. Corona does not support the implementation of Modification Proposals 0144/144A and is clear that a combined implementation of the two proposals would not further the Relevant Objectives or the Corona Objectives.

This Modification Proposal 0145 provides Transporters with no mechanism by which they can ensure Users remain within their credit limits (this assumes that the Minimum Credit Limit is set at the level of VAR however that is calculated), as security can only be requested once the exposure has exceeded the value of the security provided. We do not believe this is an appropriate commercial arrangement for a regulated monopoly, and hence cannot be considered best practice.

The current process whereby Users are notified when the exposure exceeds 70% of their security, and are required to lodge additional security once exceeding 85%, seems to have operated well in the past. Our only revision to this process would be to amend the thresholds to 80% and 95% respectively. At 95%, the remaining 5% unutilised security is equivalent to approximately 2 days exposure, so the User should have lodged additional security at the point they have reached 100% exposure.

### **Better Facilitating of the Relevant Objectives and Corona Objectives**

Corona does not believe that this Proposal would better facilitate the Relevant Objectives. We believe that the Proposal would increase the likelihood of defaults and subject Users to greater financial risks.

Corona believes that it would lead to instability which is not conducive to fostering a competitive environment.

Finally, uncontrollable financial risk is not attractive to new investors and as a result this Proposal would, to some degree, deter new entrants from participating in the market.

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

Yours sincerely

James Crosland