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29th June 2007

Re: UNC Modification Proposal 0145 "Management of Users Approaching and Exceeding Code Credit Limit"

Dear Julian

Thank you for the opportunity to comment upon this Modification Proposal, the implementation of which WWU does not support.

1. The Modification Proposal

Ofgem did not direct implementation of UNC Modification Proposal 0111 for reasons including the dependency on a definition contained within UNC Modification Proposal 0114 which Ofgem did not direct for implementation. This interdependency still exists between this Modification Proposal and Modification Proposals 0144 / 0144A.

We did not support the implementation of Modification Proposal 0111 for reasons which are still pertinent to Modification Proposal 0145.

Allowing a user to reach 100% of limit, and potentially being able to trade for a further 7 business days, before any curtailing action can be taken by a Transporter will significantly increase the risk to that Transporter and, potentially, the wider community on the basis of pass through.

In addition to the increased risk there will be an increase in administration for Transporters in order to identify and monitor Shippers operating under the potential 80% limit rather than the generic 100%.

Our understanding of Modification Proposal 0111 was that the percentage of limit was based on a users 'true' indebtedness, as defined in UNC TPD Section V 3.2.1(b), and would not be replaced by Value at Risk as defined in Modification Proposal 0114 (now defined in Modification Proposal 0144 / 0144A). This would have led to differing calculations and the maximum allowable limits being reached on significantly more occasions. Within Modification Proposal 0145 the percentage of limit is now based on the 'Value at Risk' (VAR). Whilst this removes the anomaly between Relevant Code Indebtedness (RCI) and VAR it causes even greater concern as VAR will, at

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several times during a month, be less than RCI. This will have the effect of extending the trigger point for Transporter action and therefore increasing the potential bad debt value.

The proposal also includes a notice period of 1 month for provision of additional security following a 'material change' to a Transporters Transportation Charges. We do not see any need for this additional provision to be included within the UNC as more than adequate notice is already given through the current charging consultation and notification procedures.

Modification Proposal 0102 (not implemented) & 0103 (implemented 25th November 2006) & 0143 (vote at Mod Panel 21st June 2007, generally supported) relating to Energy Balancing Credit, seek to shorten timescales in respect of limiting risk whilst this Proposal has the opposite effect and therefore the intentions are in conflict.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Implementation of consistent credit processes will ensure that there is no inappropriate discrimination and no barrier to entry.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

b) development and capital cost and operating cost implications

We agree with the Proposer that significant changes would be required in respect of operational processes and procedures in the event of implementation of this Modification Proposal which will incur development costs in adjusting trigger levels for sanctions and creating processes and procedures to enable compliance with the provisions of this proposal. An equivalent increase in operating cost may transpire in the prospective operation of the new provisions that would be introduced.

d) Analysis of the consequences (if any) this proposal would have on price regulation

We agree with the Proposer that removal of measures which a Transporter is currently able to apply at the point a User exceeds 85% indebtedness (UNC TPD section V3.3.2) will increase Transporters level of contractual risk. The Proposer also states that where a Transporter is able to demonstrate that it has implemented credit control, billing and collection procedures in line with the Guidelines, it may be in a position to secure pass through of any bad debt it incurs. However, we strongly believe that any ability to obtain pass through should not influence any decision on determining acceptable levels of risk for any party as this simply transfers the increased risk to the wider Shipper community.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

We agree with the advantages and disadvantages identified by the Proposer.

16. Comments on Suggested Text

The suggested text refers to ‘Value at Risk’, this is not currently defined within the UNC and hence this Proposal is dependant on either Modification Proposals 144 or 144A being implemented.

If you have any questions relating to this Representation please do not hesitate to contact me.

Yours sincerely

Simon Trivella
Commercial Analyst
Wales & West Utilities