

iGT UNC Consultation Response

Date	30 July 2008
Reference	iGT021 Consultation
Title	Introduction of Credit Rules into the iGT UNC
Respondee	National Grid (Distribution)
Position on the Modification	Do not support Modification

Facilitation of the relevant objectives

We welcome the Proposer's aspiration to codify elements of the credit arrangements within the iGT UNC and agree that, compared to the prevailing provisions of the iGT UNC, implementation may better facilitate the relevant objectives as specified in the proposal.

However, following an extensive three year consultation, in February 2005 Ofgem issued a conclusions document¹ providing its detailed views in respect of best practice for network operator (both gas and electricity) credit arrangements. This document provided extensive guidance as to the arrangements favoured by the Authority to facilitate competition in the energy supply sector and stated its preference for such arrangements to be formalised within industry codes to maintain transparency and ensure consistency within a multi-network operator environment.

Accordingly, a number of Modifications were made to the 'Large' Gas Transporters' Uniform Network Code (UNC) to implement the Ofgem recommendations binding all Transporters to a common set of credit principles. Alternatively this Proposal seeks to implement a number of features inherent in the previous UNC regime and as such is inconsistent with Ofgem's Best Practice Guidelines.

Additional Information and Comments

Although the initial 2002 Ofgem consultation excluded application to iGTs², in light of the subsequent development of the UNC credit terms in line with the Ofgem Conclusions on credit matters and the continued growth of the iGT sector (now circa 1 million Supply Points), it would appear inconsistent to resurrect the former regime within the iGT arena. In addition, the optionality inherent in the Proposal (enabling an iGT to operate a distinct credit policy) would maintain the risk of disparate credit requirements which may increase costs to Gas Shippers in addressing the (potentially distinct) requirements of each iGT and such costs may be passed on to end consumers.

We note that the proposer additionally advocates the introduction of (potentially iGT specific) 'Code Credit Rules' as Ancillary Documents to the iGT UNC. Unfortunately the Proposed Legal

¹ Best practice guidelines for gas and electricity network operator credit cover - Conclusions document (58/05)

² Arrangements for gas and electricity supply and gas shipping credit cover - Consultation document (24/02): para 1.16 "Other issues not covered in this document are: gas transporters other than Transco; and..."

Text does not clarify the governance arrangements for subsequent changes to the Code Credit Rules and as these document/s themselves were not issued as part of the Draft Modification Report, it is difficult to provide a definitive view of the proposed arrangements. Therefore, although we note below a number of elements which we believe are unclear, or missing, from the proposed arrangements, we understand these may be detailed within the relevant Code Credit Rules.

Accordingly, there is a lack of clarity in respect of the

- Transporter's maximum Unsecured Credit Limit
- level of unsecured credit available per credit rating
- approach to setting a Code Credit Limit
- instruments of security (other than deposit arrangements)
- use of Parent Company Guarantees

The following would appear to be inconsistent with the Ofgem Conclusions

- assessment of exposure ('Value at Risk')
- application of sanctions where Relevant Code Indebtedness is within Code Credit Limit

Overall, we conclude that there is insufficient clarity in respect of the proposed arrangements and additionally, elements that are inconsistent with Ofgem advocated best practice to enable us to offer support for the proposal.

We trust these comments will provide assistance in the compilation of the Final Modification Report to be issued to the Authority.

Please contact Chris Warner on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information with respect to the above.

Completed forms should be returned to the iGT UNC Representative, Gemserv Ltd at iGT-UNC@gemserv.com or faxed to 020 7090 1001