SCOTTISHPOWER
Energy Wholesale

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18 November 2009

Dear Paul,

User Commitment for National Transmission System Quarterly Entry Capacity
Response to Initial Impact Assessment on modification proposals – UNC246/246A/246B

Thank you for the opportunity to respond to this Initial Impact Assessment. This response is submitted on behalf of ScottishPower Energy Management Ltd (SP).

SP agrees with the initial premise that there would seem to be under provisioning of credit support (or security provided) for long-term capacity allocations. From any other contract negotiating point it would be prudent to look to cover the longer-term exposure as much as possible, taking into account the cost and liquidity involved and there is no reason why this issue should be treated any differently.

Our preference is to support MOD Proposal 246B as being the best way forward. This promotes provisioning of credit cover for longer-term allocations, allows parties to take advantage of posting Parent Company Guarantees from a company with the level of credit rating allowed in Section V (Ba3), and minimises costs by applying this only to future allocations. Likewise this would avoid the obligation of unnecessarily having to post a Letter of Credit, and is equitable in that it takes into account the differing risk profiles of Shippers when determining security requirements.

We appreciate the reluctance to incur additional costs if this is perceived to be of little benefit, however again from a purely Credit Risk point of view, it would be very easy to apply this argument to many contractual obligations, and say that based on recent experience there is little risk of default, and so therefore there is little or no requirement to secure credit cover. We believe that the point of credit risk management should be to prevent exposure to events of default, which by their very nature in our industry may be uncommon.

The Consultation document at 2.58 also asks for feedback regarding a proposal from two respondents for NGG to seek insurance cover against the risk of shipper failure and then recover the premiums through transportation tariffs. We do not consider this to be a fair method of covering this risk, since the premium for covering a poor risk (e.g. low credit rating) will be a lot greater than the premium for covering a good risk (e.g. higher credit rating). To recoup premium costs through tariffs means that the higher rated Shippers would be shouldering some of the cost for lower rated Shippers. Additionally, it is likely that a higher-rated Shipper would be able to find more cost effective methods of securing its credit cover requirements (e.g. PCG).

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

Yours sincerely

Gerry Hoggan
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