

CODE MODIFICATION PROPOSAL No 0302
RG0252 Proposal 5: Definition of Regulatory Asset Value (RAV) when
calculating Maximum Unsecured Credit
Version 2.0

Date: 09/06/2010

Proposed Implementation Date: 01/12/2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

WWU raised Review Group 0252 “Review of Network Operator Credit Arrangements” in April 2009. This was convened to discuss the appropriateness of the existing credit management arrangements, taking into account the many credit related issues which had occurred since the publication of Ofgems “Best practice guidelines for gas and electricity network operator credit cover” (BPG) document.

This specific proposal allows Transporters and Users to use each relevant Transporters most up to date published Regulatory Asset Value (RAV) position when determining a Users maximum unsecured Transportation credit limit. This will be achieved by referencing the RAV published by the Authority in its relevant Price Control Final Proposal for the price control period.

The RAV value will then be published by the Transporter (annually) clearly setting out the period within which it operates for the purposes of calculating a Users maximum unsecured credit limit. It is anticipated that the RAV value utilized will change in April each year.

For example, currently the RAV values which Wales & West Utilities will utilise are referenced in the Gas Distribution Price Control Review (GDPCR) Final Proposals Supplementary Appendices (table A 14.8 – December 2007).

The table below, sets out these published values (which are shown in non adjusted 05/06 prices).

	2008-9	2009-10	2010-11	2011-12	2012-13
	£M	£M	£M	£M	£M
RAV	1235.0	1284.6	1365.8	1404.5	1442.4

National Grid Transmission operates to a different price control period (currently within a 2007-2012 period), and will illustrate its RAV (and any uplift to take account of prior year pricing values) within any publication of its RAV for the purposes of this proposal.

The existing UNC provisions below have been interpreted in the past to

indicate that the RAV only changes when a relevant price control period starts (typically 5 years).

UNC TPD Section V 3.1.1

For the purposes of the Code:

(a) the “Regulatory Asset Value” is the value of the relevant Transporter’s regulated assets as published from time to time by the Authority.....

The Transporter will determine and assign to each User a Code Credit Limit, which may comprise of an Unsecured Credit Limit calculated in accordance with paragraph 3.1.3 and/or security or surety provided in accordance with paragraph 3.4. The Transporter shall keep each User informed of its Code Credit Limit (as revised in accordance with the Code) for the time being. The Transporter shall limit the Unsecured Credit Limit to any User and related company to a maximum of two percent (2%) of the Regulatory Asset Value (The “Maximum Unsecured Credit Limit”)....

As a consequence of the proposal, Transporters can operate a consistent approach by using the most relevant and up to date RAV value published by Ofgem, for the purpose of calculating a Maximum Unsecured Credit Limit value for Users.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

This Proposal was originally developed within the remit of Review Group 0252, which recommended a revised definition of RAV to formalise the use of a more up to date RAV with regards the setting of maximum unsecured Transportation credit limits. Further discussions have taken place within the Distribution and Transmission workstreams in May and June 2010. [All relevant comments received in these workstreams have been reflected in the proposal]. Accordingly the Proposer believes the Proposal is sufficiently developed to enable it to proceed to consultation.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This Proposal is not classified as a User Pays Modification Proposal as it does not create or amend any User Pays Services.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

No User Pays charges applicable.

c) Proposed charge(s) for application of Users Pays charges to Shippers

No User Pays charges applicable.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

The Proposer believes that implementation would further the GT Licence 'Code relevant objective(s)' of

Standard Special Condition A11. Network Code and Uniform Network Code

Condition	
1a- efficient and economic operation of the pipeline system to which licence relates	
1b- co-ordinated, efficient and economic operation of (i) combined pipeline system and/or (ii) pipeline system of one or more other relevant gas transporters	
1c- consistent with (a) and (b) above, efficient discharge of licensees obligations	
1d- securing of effective competition between (i) Relevant shippers (ii) Relevant suppliers and/or (iii) DN operators	✓
1e- provision of reasonable economic incentive for relevant suppliers to secure that domestic customer supply standards are satisfied	
1f- promotion of efficiency in the implementation and administration of the uniform network code	

1d- Effective competition between relevant shippers would be better facilitated by ensuring the appropriate maximum unsecured credit limit was afforded to Users based on the most up to date RAV position of the Transporter(s). Similarly, a uniform approach to the use of the most relevant RAV would provide each transporter with the same level of risk based on its most up to date RAV.

4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications identified.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

No such implications identified.

b) The development and capital cost and operating cost implications:

No such implications identified.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

No additional cost recovery period is proposed.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

The contractual risk of each Transporter is potentially increased by this Modification Proposal. This phased increase in RAV (as year on year a Transporters RAV will ordinarily increase) will therefore increase the amount of unsecured credit available to Users.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

No such requirement has been identified.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

No changes have been identified.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Users may have to amend their administrative and operational processes to take account of any revised unsecured credit limit based on a more recent RAV established by this Modification Proposal.

b) The development and capital cost and operating cost implications

To be advised by Users.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

An annual (phased) increasing RAV (and therefore maximum unsecured credit limit for Users) may increase the overall industry bad debt risk should a Users bad debt ultimately be passed to Users through Transportation charges.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No such implications have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

- formalising the definition of the RAV to be used across Transporters for the purposes of Maximum Unsecured Credit will provide certainty for all parties on tools for establishing a maximum unsecured credit limit using this RAV value.
- provides Users a more up to date (and therefore appropriate) level of maximum unsecured credit.

Disadvantages

No disadvantages have been identified.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

No such representations have been received, save for the support received from during the Review Groups work.

13 Detail of all other representations received and considered by the Proposer

No such representations have been received.

14 Any other matter the Proposer considers needs to be addressed

The proposer believes that no additional matters require consideration.

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

It is suggested that this Proposal be implemented no earlier than 1st December 2010 to allow any Shipper credit positions to be managed sensibly should there be a need to amend them.

16 Comments on Suggested Text

The suggested amendment to V3.3.1 takes account of the publication of any revised indicative RAV which a Transporter will use in establishing a Users revised maximum unsecured Transportation credit limit.

17 Suggested Text

V 3.1.1 For the purposes of the Code:

(a) the “**Regulatory Asset Value**” is the value of the relevant Transporter’s regulated assets as published ~~from time to time~~ by the Authority at the start of any Transporter’s relevant price control period which will be published and updated to current year prices by the Transporter for the sole use of establishing a Users Maximum Unsecured Credit Limit.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V3.1.1 (a)

Proposer's Representative

Simon Trivella (Wales & West Utilities)

Proposer

Simon Trivella (Wales & West Utilities)