

Modification Report
Urgent Modification Proposal Reference Number: 0076
Payment of Credits post Failure to Make Payment Notice

This modification report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Circumstances Making This Modification Urgent

In accordance with Rule 9.2(a) Ofgas has agreed that this modification proposal should be treated as URGENT because under the present rules credits would continue to be paid to Shippers after a Failure to Make Payment Notice had been issued, thus increasing the net financial exposure in the eventuality of a default.

2. Procedures Followed

TransCo agreed with Ofgas (and has followed) the following procedures for this Proposal:

12th September 1996 -	Modification Proposal submitted.
17th September 1996 -	Proposal agreed as Urgent.
25th September 1996 -	Representations Received by 5 pm.
26th September 1996 -	Report to OFGAS.
27th September 1996 -	Implementation.

3. The Modification Proposal

When a Failure to Make Payment Notice has been issued to a Shipper, TransCo would be entitled to withhold credits payable to the User, in respect of any subsequent Energy Balancing Charges, until the amounts specified in the Failure to Make Payment Notice were paid in full. In the event of termination of the User any outstanding credits would be set-off against any outstanding energy balancing debt.

This proposal would only take effect when invoice "bunching" occurred, i.e. settlement of two energy balancing invoices within 7 business days.

4. Text provided pursuant to Rule 8.14

Network Code Supplement - Energy Balancing Credit Management

3.2.4 Where TransCo has given notice to a User under paragraph 3.2.1, and until the Net Invoice Amount under the relevant Energy Balancing Invoice is paid in full, TransCo will not pay, and (irrespective of the Invoice Due Date) shall be entitled to withhold payment pursuant to any Energy Balancing Invoice in respect of, any amounts payable to the User in respect of Energy Balancing Charges.

5. TransCo's opinion

Following a review of energy balancing settlement to date, concerns have been raised regarding payments of credits to Shippers when a Failure to Make Payment Notice has been issued, and there are still outstanding energy balancing payments from a previous invoice. At the Energy Balancing Credit Committee on Friday 6th September, Members agreed that under the above scenario, credits should be withheld until the previous invoice had been settled in full - hence this modification is being proposed.

This eventuality was not envisaged when the Network Code Supplement was drafted as settlement of energy balancing invoices was anticipated to be at monthly intervals and therefore a Failure to Make Payment Notice would have expired prior to the next month's settlement date.

TransCo therefore believe it would be prudent to have this measure in place should the circumstance arise in the future.

6. Extent to which the modification would better facilitate the relevant objectives:

The modification would ensure that Shippers' exposure from energy balancing defaults is not increased when a Failure to Make Payment Notice has been issued. This proposal amends the Supplement so that failure to make payment of an energy balancing invoice is consistent with provisions regarding failure to pay a cash call.

7. The implications for TransCo of implementing the Modification Proposal, including:

a) implications for the operation of System and any BG Storage Facility:

TransCo is not aware of any implications on the operation of the system or any BG Storage facility.

b) development and capital cost and operating cost implications

TransCo is not aware of any additional capital or operating costs.

c) extent to which it is appropriate for TransCo to recover the costs, and proposal for the most appropriate way for TransCo to recover the costs:

TransCo is not aware of any additional costs.

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

TransCo is not aware of any impacts on price regulation.

8. The consequence of implementing the Modification Proposal on the level of contractual risk to TransCo under the Network Code as modified by the Modification Proposal;

The modification will reduce the money at risk to the community. The level of contractual risk to TransCo will remain unchanged.

9. The development implications and other implications for computer systems of TransCo and related computer systems of Relevant Shippers;

TransCo is not aware of any implications for Shipper or TransCo computer systems.

10. The implications of implementing the modification for Relevant Shippers.

Credits would not be paid to shippers where a Failure to Make Payment Notice had been issued, thus reducing the Shipper Community's exposure to risk of default.

11. The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party;

TransCo is not aware of any impact on terminal operators, suppliers, producers and any Non-Network Code Party.

12. Consequences on the legislative and regulatory obligations and contractual relationships of TransCo and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal;

TransCo has not been informed of any consequences on the legislative and regulatory obligations and contractual relationships of implementing this modification.

13. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal;

- Advantages -
- The modification will reduce Shippers' exposure to default.
 - The modification is consistent with standard business practice.

14. Summary of the representations (to the extent that the importance of those representations are not reflected elsewhere in the modification report;

Six representations were received, all but one of which were in support of the modification proposal.

15. The extent to which the implementation is required to enable TransCo to facilitate compliance with safety or other legislation;

The modification is not required to facilitate compliance with safety or other legislation.

16. Having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement; furnished by TransCo under Standard Condition 3(1) of the Licence:

This modification is not required to comply with the above clause.

17. Programme of works required as a consequence of the implementation of the Modification Proposal:

No programme of works is considered necessary.

18. Proposed implementation timetable:

The modification will be implemented from 27th September 1996.

19. Recommendation for the implementation of the modification:

This modification proposal is consistent with normal business practice and circumvents a scenario which can arise where the bunching of invoices occurs. The proposal should be implemented in order to reduce Shippers' exposure to default.

20. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.


21. TransCo Proposal

This Modification Report contains TransCo's proposal to modify the Network Code and TransCo now seeks a direction from the Director General in accordance with this report.

Signed for and on behalf of British Gas TransCo.

Signature: 

Date: 26th September 1996

Name:  Chris Train

Position: Energy Balancing Manager

Modification 0076: Payment of Credits post Failure to Make Payment Notice**Director General of Gas Supply Response**

In accordance with Condition 7(10)(b) of the Standard Conditions of Public Gas Transporters' Licences dated 21 February 1996 I hereby direct British Gas TransCo that the above proposal be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature: *Eileen Marshall*

Date: *27/9/96*

Name: Dr Eileen Marshall

Position: Director, Regulation & Business Affairs

Director General of Gas Supply Response

In accordance with Condition 7 (10)(b) of the Standard Conditions of Public Gas Transporter's Licences dated 21st February 1996 I hereby direct British Gas TransCo that the above proposal be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:

Date:

Name:

Position: