Modification Report
Urgent Modification Proposal Reference Number: 0085
Secured Credit Limit - Reduction to £100,000

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 it encourages "secured" energy balancing activity and therefore reduces Shippers' exposure to default.

2. Procedures Followed

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

3rd October 1996	-	Modification Proposal submitted.
7th October 1996	-	Proposal agreed as Urgent.
11th October 1996	-	Open forum discussions with the Shipping Community
17th October 1996	-	Representations Received by 5 pm.
18th October 1996	-	Report to OFGAS.
1st January 1997	-	Modification takes effect within the code.

3. The Modification Proposal

The Secured Credit Limit, for Energy Balancing Credit Management purposes, would be reduced from £250,000 to £100,000 with effect from 1st January 1997.

4. TransCo's opinion

This modification was proposed following the Energy Balancing Credit Committee meeting on 1st October 1996. At this meeting shippers reiterated their support for a reduction in the Secured Credit Limit from £250,000 to £100,000 (previously agreed at the Energy Balancing Credit Committee meeting of 6th September 1996 which led to modification proposal 0074, subsequently rejected by Ofgas) and agreed that the proposal should be resubmitted to Ofgas on an urgent basis.

The move to reduce the limit was agreed necessary to encourage "secured" energy balancing activity and therefore reduce Shippers' exposure to default. This was seen by the Committee as a logical evolutionary step as some members expressed a wish to see an unsecured limit of zero. It was also agreed that the level of community risk would be continually reviewed by the Committee.

By retaining a Credit Limit at this reduced level of £100,000, many of the smaller Shippers will still be able to participate in the energy balancing regime without needing to obtain another form of security. This is because their energy balancing requirements are well within this limit and the move to daily energy balancing with tighter tolerances should offset the impact of higher levels of trading during the winter months.

The effective date of 1st January 1997 was proposed by the Energy Balancing Credit Committee. This represented a compromise in so far as members were keen for a change in the Limit to be introduced as soon as possible, in order to reduce the community's exposure to default, but the Committee felt that two months represented a reasonable amount of time for Shippers to put in place any security made necessary by the modification.

At an open forum meeting on 11th October to discuss this proposal, all shippers present agreed in principle to a reduction in the Secured Credit Limit to £100,000. One shipper had certain reservations, the main objection being that insufficient time had been allowed to obtain the additional security.

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

The Money at Risk (including costs of default) for Network Code Users from an energy balancing default will be reduced.

6. 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.

7. 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.

8. 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.

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

The Shipper Community's exposure to risk of default will be reduced. Shippers will be required to increase their reliance on other security to support their business activity.

10. 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.

11. 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.

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

Advantages -

- The modification will reduce Shippers' exposure to default.
- Shippers will be protected from the risk of new Users entering the market without the required level of security.
- Encourages commercial behaviour now that competition has been established.
- Encourages market securitisation for existing and new entrants.
- Reduces discrimination against those shippers who have to secure their energy balancing activity.

Disadvantages -

- The number of cash calls could increase unless Users put in place additional security and therefore operate within a limit which is more appropriate to their size of business.

13. 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, three of which were in support of the modification proposal. This compares with eleven representations received for modification proposal 0074 of which seven were in favour.

British Gas Trading and BP Gas point out that shippers are required to provide security for Transportation charges and for gas purchases and the secured credit limit in energy balancing is anomalous. They see a reduced limit as a hurdle, and not a barrier, to entry which should be acceptable to shippers with adequate commercial provisions. Both feel that the proposal provides adequate time for shippers to find additional security and BGT point out that shippers managed to obtain security in a similar time-scale at the start of Network Code. BP state that the current secured credit limit was a compromise between Ofgas' wishes to encourage small shippers into the industry and standard business practice. However, they suggest that the present limit benefits more shippers than originally intended and consequently the majority of shipper balances are not secured.

ENG support the modification and state that this is the only commodity market with a free credit limit which is effectively a subsidy for smaller shippers. They point out the potentially high exposure in the coming winter period and the need to reduce the secured credit limit urgently.

Bell Gas cite the time available to secure extra credit (and the lack of consultation with smaller shippers as to how much time would be required) as their reason to reject the proposal. However, Bell Gas would support a reduction to £100,000 provided the period to put the extra security in place was at least six months.

British Fuels are also of the opinion that the time-scales are unduly tight. They suggest that it is unlikely that any of the Shippers affected by the proposed will default. However, they also point out that in this eventuality the exposure to the community would be significantly above the credit limit. TransCo is of the opinion that this makes a reduction in the credit limit more crucial in highlighting problems more rapidly so that prompt action can be effected.

Yorkshire Electricity state their concern over the quality of energy balancing invoices. TransCo are of the opinion that this detracts from the real issue: that the money at risk at any point in time, combined with the unsecured limit, creates added risk to the community as a whole.

14. 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.

15. 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.

16. Programme of works required as a consequence of the implementation of the Modification Proposal;

No programme of works is considered necessary.

17. Proposed implementation timetable;

To allow Shippers a reasonable period to obtain additional security, the modification will be effective from 1st January 1997.

18. Recommendation for the implementation of the modification;

This modification should be implemented in order to reduce the Money at Risk to the Community and thereby reduce Shippers' exposure to default.

19. 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.

20. 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.

21. Text provided pursuant to Rule 9

Network Code Supplement - Energy Balancing Credit Management

Paragraph 2.2.2

Replace "£250,000" with "£100,000".

Signed for and on behalf of British Gas TransCo.

Signature:

Date: 18th October 1996

Name: Chris Train

Position: Energy Balancing Manager

Director General of Gas Supply Response

In accordance with Condition 7 (10)(b) of the Standard Conditions of Public Gas Transporters' 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:

The Network Code is hereby modified, with effect from , in accordance with the above proposal.

Signature:

Secretary Modification Panel
British Gas TransCo

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

(i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") within 28 days of the date on which the Agreement is made; or

(ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.