

Stage 01: Modification

At what stage is this document in the process?

0521:

Revision of User Admission Criteria to include Transporter verification of its ability to transact with the Applicant User

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This modification seeks to amend the User admission criteria to ensure that prior to User Accession, the Transporter verifies that the Transporter's Account Bank it is able to transact with the Applicant User.



The Proposer recommends that this modification should be issued for consultation



High Impact:
None



Medium Impact:
Shippers, Transporters



Low Impact:
None

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About this document:		 telephone
This modification will be presented by the proposer to the Panel on 18 th December 2014.		Systems Provider: Xoserve
The Panel will consider the proposer's recommendation and agree whether this modification should be issued for consultation.		 commercial.enquiries@xoserve.com
The Proposer recommends the following timetable:		Additional contacts: Mike Thorne
Draft Modification Report issued for consultation (7 Business Days)	19 December 2014	 mike.thorne@nationalgrid.com
Consultation Close-out for representations	2 January 2015	 01926 656382
Final Modification Report presented to Panel	5 January 2015	
UNC Modification Panel recommendation	15 January 2015	

1 Summary

Is this a Self-Governance Modification?

Self Governance procedures are not proposed because this modification is likely to have a material effect on commercial activities connected with the transportation of gas conveyed via the National Transmission System and the operation of this pipeline system¹. This is due to the extent of the potential impact to Users and Transporters of a User's inability to transact with the Transporters for payment of amounts due under the UNC, i.e. risk of socialised bad debt costs being recovered from other Users.

Is this a Fast Track Self-Governance Modification?

Fast Track Self-Governance procedures are not proposed because the proposer does not believe that this modification meets the self-governance criteria for the reasons stated above and therefore does not qualify.

Why Change?

A new Applicant User (trader) expects to satisfy the last of the User admission requirements imminently. However, the Transporter has been unable to verify that it is able to transact with the Applicant User in respect of any amounts that subsequently become payable under the UNC and invoiced in accordance with TPD Section S.

There is a lack of clarity as to the consequences of this omission (which post User Accession Date is potentially a failure to provide valid payment details in accordance with TPD Section S3.2.2) and the Energy Balancing Credit Committee (EBCC) has expressed concern that should this Applicant User become a User and commence trading activities, it will have no practical capability to make payments (in accordance with TPD Section S3.2.1) in respect of consequential Energy Balancing charges. The EBCC has highlighted a risk that other Users may be exposed to additional financial risk in these circumstances due to potential smearing of any unrecovered Energy Balancing costs.

Solution

It is proposed that additional criteria are included as a new admission requirement under TPD Section V2.1.2. This additional criteria are that that following does not apply:

- the Transporter's account bank has notified the Transporter that it will not deal with the Applicant User; and
- where the above does apply, the Transporter has been informed by at least one other bank or financial institution that such bank or financial institution would not deal with the Applicant User; and
- the Transporter has provided to the Applicant User details of the Transporter's account bank to enable the Applicant User to discuss the matter directly with the Transporter's account bank.

Relevant Objectives

Implementation of this modification would better facilitate effective competition between relevant shippers (Relevant Objective (d)) by requiring verification from the Transporter's account bank that that the Applicant User will be able to transact with the Transporter's account bank for amounts payable under the UNC and therefore minimising the risk of socialised bad debt costs being recovered from other Users.

Implementation

No implementation timescales are proposed.

¹ The relevant self-governance criteria as specified in SSC A11 24(a)

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

2 Why Change?

The Proposer requests that this modification is issued to consultation as no further development is required. It is also requested although not subject to Urgent Procedures as per Section 10 of the UNC Modification Rules, a shortened consultation period is appropriate on the basis that the issues highlighted in section 2 comprise an imminent issue which if not urgently addressed may have a significant commercial impact upon Shippers and potentially Transporters.

Driver for Change

The current criteria for a party (the '*Applicant User*') to become a User under the UNC is specified in Transportation Principal Document (TPD) Section V2. The Applicant User becomes a User on the third Business Day following the point at which the Applicant User satisfies the last of the admission requirements specified in TPD Section V2.1.1 and V2.1.2. This date is the User Accession Date².

Whilst in all cases it is necessary for the Applicant User to be assigned an initial Secured Credit Limit³ for Energy Balancing (and for a Shipper User, an initial Code Credit Limit⁴ for transportation services), there is no requirement for confirmation prior to the User Accession Date that the Applicant User is able to transact with the Transporter in accordance with TPD Section S3.2.1 for amounts payable under the UNC.

A new Applicant User under the UNC expects to satisfy the last of the User admission requirements imminently. However, this Applicant User has not been able to provide assurance that the bank payments facilitated under TPD Section S3.2.2 can be made to the account bank of the Transporter and vice versa. This is due to the unwillingness of financial institutions to participate in transactions with the particular Applicant User. One party has stated that it is unwilling as to do so may damage their reputation. Despite the Transporter having employed reasonable efforts to make arrangements with an alternative financial institution, which is willing to deal with the particular Applicant User and the Applicant User's bank, it has been unable to do so without incurring increased cost.

There is a lack of clarity as to the consequences of not having assurance that bank payments can be facilitated and the EBCC has expressed concern that should this Applicant User complete the User Accession process and commence trading activities, it will have no capability to make payments in respect of consequential Energy Balancing charges. The EBCC has highlighted a risk that other Users may be exposed to additional financial risk in these circumstances due to potential smearing of any unrecovered costs.

This modification has been raised to remove the uncertainty of the consequences of failure of a User to be able to transact with the Transporter, following the Accession process.

Further consideration of the enduring capability of existing Users to transact with the Transporter will be considered separately and if appropriate a further UNC modification may be raised.

² TPD V2.2.1

³ TPD V2.1.2(h)

⁴ TPD V2.1.2(g)

3 Solution

It is proposed that additional criteria are included as a new admission requirement under TPD Section V2.1.2. These criteria are that the following does not apply:

- the Transporter's account bank has notified the Transporter that it will not deal with the Applicant User; and
- where the above does apply, the Transporter has been informed by at least one other bank or financial institution which in the Transporter's reasonable opinion is a major and reputable bank in the United Kingdom, that such bank or financial institution would not deal with the Applicant User; and
- the Transporter has provided to the Applicant User details of the Transporter's account bank to enable the Applicant User to discuss the matter directly with the Transporter's account bank.

As additional User Admission criteria, these provisions must be satisfied *before* a User Accession Date can be determined for an Applicant User.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	N/A
Proposed charge(s) for application of User Pays charges to Shippers.	N/A
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	N/A

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Relevant Objective d): Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

Implementation of this modification would better facilitate effective competition between relevant shippers by requiring verification from the Transporters account bank that that an Applicant User will be able to transact with the Transporter's account bank for amounts payable under the UNC and therefore minimising the risk of socialised bad debt costs being recovered from other Users.

5 Implementation

No implementation timescales are proposed.

6 Impacts

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

7 Legal Text

Text Commentary

Prior to User Accession to the Code the Applicant User must satisfy a number of admission criteria. The User admission criteria under TPD Section V2.1.2 are supplemented by a new individual admission requirement in respect of its ability to transact with the Applicant User.

Text

TPD Section V

Amend Section V paragraph 2.1.2 as follows (new paragraph (j) has been added):

2.1.2 The requirements referred to in paragraph 2.1.1(a) are as follows:

- (a) the Applicant User shall have applied to the Transporter, in such form as the Transporters may from time to time prescribe, giving the following details:
 - (i) the name of the Applicant User;
 - (ii) the legal nature of the Applicant User, and where the Applicant User is not a company incorporated under the Companies Act 1985 (as amended), such further information concerning the constitution of the Applicant User as the Transporter may reasonably require;
 - (iii) the address and telephone and facsimile numbers of the Applicant User, and the individual for whose attention notice is to be marked, for the purposes of notice under GT Section B5.2.3 and B5.3.1;
 - (iv) where the Applicant User is not a company incorporated under the Companies Act 1985 (as amended), an address for service in accordance with paragraph GT Section B6.6.3;
- (b) where the Applicant User wishes to become a Shipper User, either:
 - (i) a Shipper's Licence shall have been granted to the Applicant User which is in force and in respect of which no notice of revocation has been given, and the Applicant User shall have provided a copy of such licence to the Transporter; or
 - (ii) a Shipper's Licence shall be treated as having been granted to the Applicant User pursuant to a scheme made under paragraph 15 or 16 of Schedule 5 to the Gas Act 1995;

- (c) where the Applicant User wishes to become a Shipper User in relation to an LDZ of which National Grid NTS is not the owner or operator, the Applicant User is, or will be, a Shipper User under National Grid's Network Code at the User Accession Date;
- (d) the Applicant User shall have secured compliance with those requirements of Section U which are required to be complied with before a User is able to send and receive UK Link Communications, including without limitation:
 - (i) the installation and connection of the UK Link User Equipment and the UK Link User Software either at:
 - (1) the Applicant User's premises; or
 - (2) where the Applicant User secures the services of a User Agent for the installation and connection of the UK Link User Equipment and Software, at the User Agent's premises, provided that where the User Agent ceases or is unable (for any reason) to provide such services, then the Applicant User shall, as soon as is reasonably practicable after such cessation, secure the installation and connection of the UK Link User Equipment and the UK Link User Software at the Applicant User's premises;
 - (ii) the appointment of one or more Authorised Representatives;
- (e) the Applicant User shall have provided the emergency contact details required under Section Q2.2;
- (f) the Applicant User shall have obtained from the Transporters one or more copies of the Code and such other documents referred to in the Code or the Shipper Framework Agreement as the Transporters shall from time to time prescribe for the purposes of this paragraph (f);
- (g) where the Applicant User wishes to become a Shipper User, the Applicant User shall have been assigned an initial Code Credit Limit in accordance with paragraph 3;
- (h) in relation to the NTS, the Applicant User shall have been assigned an initial Secured Credit Limit in accordance with Section X;
- (i) where the Applicant User wishes to become a Shipper User, the Applicant User shall have provided the Transportation Charges contact detail as required under Section 3.4.7; and
- (j) the following does not apply:
 - (i) the Transporter's account bank has notified the Transporter that it will not deal (as would be required by the Code) with the Applicant User; and
 - (ii) where (i) does apply, the Transporter has been informed by at least one other bank or financial institution which in the Transporter's reasonable opinion is a major and reputable bank in the United Kingdom, that such bank or financial institution would not so deal with the Applicant User; and
 - (iii) the Transporter has provided to the Applicant User details of the Transporter's account bank sufficient to enable the Applicant User to discuss the matter directly with the Transporter's account bank.

8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance; and
- Progress to Consultation.

The Proposer believes that the solution proposed is fully developed and narrow in scope and is therefore suitable for industry consultation in its current form.