

0375:

To provide Users with a choice as to how their Unsecured Credit Limit is determined in line with UNC TPD Section V 3.1.7



TPD Section V 3.1.7 currently allows Transporters to set a User's Unsecured Credit Limit no higher than the lower of the credit value recommended within a User's Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transporter's Maximum Unsecured Credit Limit. This Modification suggests the removal of that ability and would require Transporters to allow Users following the process outlined in Section V 3.1.7 to choose which of the two values mentioned above is utilised by the Transporter to set that User's Unsecured Credit Limit.



The Proposer recommends that this Modification proceed directly to consultation



High Impact:
Users without approved credit ratings



Medium Impact:



Low Impact:
Users with approved credit ratings, Transporters

0375

Modification

21 March 2011

Version 1.0

Page 1 of 11

© 2011 all rights reserved

Contents

- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Impacts and Costs
- 6 Implementation
- 7 The Case for Change
- 8 Recommendation



3 **Any questions?**

4 Contact:

4 **Joint Office**



5 enquiries@gasgovernance.co.uk

6



9 **0121 623 2115**

10 Proposer:

11 **Chris Hill**



chris.hill@first-utility.com



01926 328 760

Transporter:

Insert name



...@...



0000 000 000

xoserve:

Insert name



commercial.enquiries@xoserve.com



0000 000 000

0375

Modification

21 March 2011

Version 1.0

Page 2 of 11

© 2011 all rights reserved

1 Summary

Is this a Self Governance Modification

We do not believe that this is a Self Governance Modification as we feel that, although there would be no direct material impact resulting from implementation if this were to occur, given the relation between this Modification and the Suite of Credit Related Proposals that followed UNC Review Group 0252, a view from Ofgem is required.

Why Change?

First Utility has found that there is a materially significant gap between the Unsecured Credit Limit that could be achieved based on the value calculated by applying an Independent Assessment Score to a Transporters' Maximum Unsecured Credit Limit in line with the table contained in UNC TPD V 3.1.7 and the Unsecured Credit Limit that would result from the Transporter using the credit value recommended within an Independent Assessment. We believe that this undermines the intended purpose of the implementation of UNC Modification 0304 and unfairly discriminates against Users without an approved credit rating.

Solution

This Modification proposes removing the ability for Transporters to use the lowest value resulting from the two methods of calculation described above. Instead, a User would be able to choose which of the two values each Transporter would use to set that User's Unsecured Credit Limit following its assessment under the process laid out in UNC TPD Section V 3.1.7.

Impacts & Costs

We do not believe that implementation of this Modification will significantly increase risk to the market and cost of implementation should be minimal as a User will still be following the process laid out in UNC TPD Section V 3.1.7 in order to determine its Unsecured Credit Limit.

Implementation

We believe that implementation could take place as soon as direction is received from Ofgem.

The Case for Change

Implementation of this Modification will assist competition by allowing Users without an approved credit rating an amount of Unsecured Credit in line with the table contained in UNC TPD Section V 3.1.7, thus releasing working capital which can then be used to grow their businesses rather than forcing this to be used for credit purposes.

Recommendations

We believe that this Modification can proceed straight to consultation.

0375

Modification

21 March 2011

Version 1.0

Page 3 of 11

© 2011 all rights reserved

2 Why Change?

The current ability of the Transporters to set a User's Unsecured Credit Limit no higher than the lower of the credit value recommended within a User's Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transporter's Maximum Unsecured Credit Limit potentially has a negative impact on competition. This is due to the fact that the difference between these two figures can potentially be significant and this forces Users without an approved credit rating into posting larger levels of cash to cover credit requirements than they might need to even though they have followed the Independent Assessment Process required in UNC TPD Section V 3.1.7 and introduced as a result of the implementation of UNC Modification 0304. This Modification suggests the removal of that ability and would require Transporters to allow Users to choose which of the two values deriving from the process mentioned above is used by each Transporter to determine that User's Unsecured Credit Limit. This will assist competition by allowing Users without an approved credit rating to free up working capital, which can then be used to grow their businesses.

3 Solution

The simplest and most straightforward would be to amend the following paragraph in UNC TPD Section V 3.1.7:

"The Transporter will set the Users Unsecured Credit Limit no higher than the lower of the credit value recommended within the Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transport's [sic] Maximum Unsecured Credit Limit".

to read:

"The User will confirm to the Transporter whether it wishes it to use the credit value recommended within the Independent Assessment or the value calculated by applying the Independent Assessment Score to the Transporter's Maximum Unsecured Credit Limit to set that User's Unsecured Credit Limit".

4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Objectives a, b, c, d, e and f.**

| Proposer's view of the benefits against the Code Relevant Objectives | |
|--|---|
| Description of Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | |
| 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. | |
| c) Efficient discharge of the licensee's obligations. | |
| 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 the achievement of Relevant Objectives d) i) and d) ii) |
| 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. | |
| f) Promotion of efficiency in the implementation and administration of the Code | |

As previously stated, implementation of this Modification would potentially assist competition by allowing Users the choice as to how their Unsecured Credit Limit is set following Independent Assessment. This would address the current potentially large disparity between the two methods of calculating this which, by allowing Transporters to use the lowest number, potentially forces Users without an approved credit rating to post larger amounts of cash for credit purposes than would have been the case had they been allowed to choose which of the two values was used.

5 Impacts and Costs

It seems likely that there could be an impact relating to increased perceived risk if Users without an approved credit rating are then given access to greater levels of unsecured credit should this Modification be implemented. However, we feel that the risk that these Users pose in relation to the size of the market as a whole is minimal and the competitive benefits that would be provided outweigh this.

We do not believe that any extra costs will result from implementation as no operational changes would result from this.

Indicative industry costs – User Pays

Classification of the proposal as User Pays or not and justification for classification

This is not a User Pays proposal as we do not believe any adjustment to Transporter Systems will be required should this Modification be implemented.

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

N/A

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

N/A

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

N/A

Impacts

Impact on Transporters' Systems and Process

| Transporters' System/Process | Potential impact |
|------------------------------|--|
| UK Link | <ul style="list-style-type: none">• None |
| Operational Processes | <ul style="list-style-type: none">• None |
| User Pays implications | <ul style="list-style-type: none">• None |

Impact on Users

| Area of Users' business | Potential impact |
|--|---|
| Administrative and operational | <ul style="list-style-type: none">• None |
| Development, capital and operating costs | <ul style="list-style-type: none">• Benefit to smaller Users' operating costs |

0375

Modification

21 March 2011

Version 1.0

Page 6 of 11

© 2011 all rights reserved

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

0565 Transco Proposal for Revision of Network Code Standards of Service at the following location:
<http://www.gasgovernance.com/networkcodearchive/551-575/>

| Impact on Users | |
|---|---|
| Contractual risks | <ul style="list-style-type: none"> Small increase in perceived risk for market players |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> None |

| Impact on Transporters | |
|---|--|
| Area of Transporters' business | Potential impact |
| System operation | <ul style="list-style-type: none"> None |
| Development, capital and operating costs | <ul style="list-style-type: none"> None |
| Recovery of costs | <ul style="list-style-type: none"> None |
| Price regulation | <ul style="list-style-type: none"> None |
| Contractual risks | <ul style="list-style-type: none"> None |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> None |
| Standards of service | <ul style="list-style-type: none"> None |

| Impact on Code Administration | |
|-------------------------------|--|
| Area of Code Administration | Potential impact |
| Modification Rules | <ul style="list-style-type: none"> None |
| UNC Committees | <ul style="list-style-type: none"> None |
| General administration | <ul style="list-style-type: none"> None |

| Impact on Code | |
|-------------------|--------------------------------|
| Code section | Potential impact |
| UNC TPD Section V | Modification as laid out above |
| | |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|------------------|
| Related Document | Potential impact |
| Network Entry Agreement (TPD I1.3) | |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | |

| Impact on UNC Related Documents and Other Referenced Documents | |
|--|--|
| Storage Connection Agreement (TPD R1.3.1) | |
| UK Link Manual (TPD U1.4) | |
| Network Code Operations Reporting Manual (TPD V12) | |
| Network Code Validation Rules (TPD V12) | |
| ECQ Methodology (TPD V12) | |
| Measurement Error Notification Guidelines (TPD V12) | |
| Energy Balancing Credit Rules (TPD X2.1) | |
| Uniform Network Code Standards of Service (Various) | |

| Impact on Core Industry Documents and other documents | |
|---|------------------|
| Document | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | None |
| Gas Transporter Licence | None |

| Other Impacts | |
|--|------------------|
| Item impacted | Potential impact |
| Security of Supply | None |
| Operation of the Total System | None |
| Industry fragmentation | None |
| Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties | None |

0375

Modification

21 March 2011

Version 1.0

Page 8 of 11

© 2011 all rights reserved

6 Implementation

April 21, 2011 – Modification submitted to Mod Panel for consideration, Modification goes out for consultation.

May 5, 2011 – Deadline for representations (this Modification is not seeking a shortened response period).

Ofgem decision to be issued as soon as reasonably practicable.

7 The Case for Change

In addition to that identified the above, the Proposer has identified the following:

Advantages

- Allows Users greater choice as to which criteria Transporters use to determine Users' Unsecured Credit Limits in line with UNC TPD Section V 3.1.7.
- Allows Users without an approved credit rating to free up working capital to grow businesses and ensure a more competitive market.

Disadvantages

- There may be a perception of greater risk to Users if this Modification is implemented.

8 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0375 should be sent to Consultation.

0375

Modification

21 March 2011

Version 1.0

Page 11 of 11

© 2011 all rights reserved