

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0627
"Extension of Transco's rights to apply sanctions"
Version 4.0

Date: 14/04/2003

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

The Network Code states; where a User exceeds 85% of its Code Credit Limit, Transco shall be entitled to refuse to accept any or all of the following (these measures are collectively referred to as "sanctions"):

- Applications for system capacity or increases of system capacity;
- Applications to acquire capacity on the secondary market;
- Supply point nominations or Confirmation.

By allowing Transco to impose sanctions on occasions other than when a User exceeds the 85% indebtedness trigger, Transco would have an escalation process to stimulate payment by restricting portfolio growth without the threat of termination, which is at present, the only remedy for late payment of invoices in excess of £10,000. Transco believes that for Users in default, it is sensible to have a halfway-house remedy that encourages payment but avoids the need to take precipitous action.

The justification to support this change results from Transco not being in a commercial position to temporarily withdrawn services to lever payment. Restricting the rate at which the debt increases, while still allowing the shipper to trade, should be seen as a prudent commercial measure. The introduction of an option to apply sanctions for debt would have the effect of differentiating between Users that "won't pay" as opposed to Users that "can't pay". Where the shipper falls in to the former category sanctions would encourage adherence to its Network Code obligations, whereas where the latter applies, termination may, ultimately, be the best course of action for all Network Code parties.

By allowing Transco to have the flexibility to apply a remedy for non-payment without termination, Transco would have a method of limiting the financial exposure of the User. Transco believe that termination should be an action of last resort, however, it is currently the only contractual remedy for non-payment of an overdue debt in excess of £10,000.

Nature of Proposal

The extend the circumstances when the provisions of Section V.3.3.2 of the Network Code could be applied to include instances where a User is in default by an amount greater than £10,000.

Purpose of Proposal

The purpose of the proposal is to increase the remedies available for prompting payments from Users while removing the need to take termination or insolvency action as a first step. The ability to provide a measured response to non-payment which avoids precipitous action would reduce risk for all parties concerned and, therefore, could be expected to facilitate a more competitive environment for Users.

Consequence of not making this change

The only remedy open to Transco for restricting credit exposure where a User defaults on payments in excess of £10,000 would be termination.

Area of Network Code Concerned

Section V3.3

Proposer's Representative

Alan G Raper (Transco)

Proposer

Debbie Dowling (Transco)

Signature

.....