

CODE MODIFICATION PROPOSAL No xxxx

<Title>

Version 0.1 Draft

Date: 11/02/2010

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (*) when first used.

This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).

Executive Summary

This Modification Proposal* seeks to amend the criteria for credit provided by Payment History in UNC TPDV3.1.5 and V3.1.6 to reflect the recommendations of Review Group 0252 'Review of Network Operator Credit Arrangements' (RG0252).

Background

Review Group 0252 was established in July 2009 to undertake a review of the existing credit arrangements within UNC TPD Section V taking into account other credit related issues that have occurred since the publication of the Ofgem Best Practice Guidelines (BPG) document.

One of the topics discussed by the Review Group was Unsecured Credit risk and in particular the use of Independent Assessments and Payment History in determining the level of Unsecured Credit to be provided to small Users. One concern raised was that good payment history under the UNC was not always a useful means of gauging if an applicant was fully credit worthy, as they may not be paying other creditors and this would not be visible to the gas transporters.

The current UNC Payment History requirements are detailed in TPD Sections V3.1.5 and V3.1.6, briefly these arrangements allow for payment history to be built up over a 5 year period, however when a payment of greater than £250 is late then the accumulated history would be taken back to zero.

The use of Payment History as a credit tool to date has been a limited event

as Users have opted for other credit tools, such as Letter of Credit (LoC), Deposit Deed and Independent Assessment.

It should be noted that an Independent Assessment also contains an element of payment history; however this is a more rounded approach that includes a wider payment history check taking into consideration payments to the GT and other parties, when determining the final score/amount of Unsecured Credit to be provided. The Review Group has also recommended that the process for establishing the Independent Assessment Score is clarified and a separate Modification Proposal is to be raised.

RG0252 discussed several potential options for changing the way Payment History is currently accrued and given the aforementioned cross over with Independent Assessment the initial preference was to remove Payment History as a credit tool. However, following consideration of the views of Ofgem and some small Users about the potential impact on competition it was recognised that new entrants may have difficulty obtaining a full Independent Assessment until they have been trading for a period of time.

With this in mind the Review Group recommended that Payment History be retained as a credit tool but that its use is restricted to new entrants only with a time limit of a maximum of 2 years from the point of entrance to the gas market. After such time the User would need to choose an alternative credit tool and given that the Review Group have also proposed some enhancements to the Independent Assessment, we envisage that this mechanism may be the tool of choice. The Review Group believed this would provide responsible credit and limit the exposure to the community.

The Review Group also compared the gas Payment History processes to the electricity regime (Connection Use of System Code) and it was proposed that the UNC adopt the same approach to administration errors. In the current gas regime, if a payment of greater than £250 is late then the accumulated history would be taken back to zero. In the CUSC a softer landing is applied, where if a payment is received up to and including 2 days after the payment due date then the credit limit would not revert to zero in the first instance

Nature of the Proposal

It is proposed that TPD Sections V3.1.5 and V3.1.6 should be amended to indicate that Payment History is only available to new entrants to the gas market and only available to them for a maximum of 2 years from the date they became a party to the UNC. After such time the User* would have to use one of the other credit tools available within TPD Section V, such as Independent Assessment, Deposit Deed, etc.

It is also proposed to amend the aforementioned sections to allow for administration errors:

- If a payment is received up to and including 2 days after the payment due date then the Unsecured Credit limit would not increase

for the following month and interest would be charged on the late payment.

- However, the Unsecured Credit limit would not revert to zero in the first instance but if payment was late more than once within a rolling 12month period then the credit limit would revert to zero. Interest would also be charged on the second late payment.

This proposal is further illustrated by the following examples:

- Case 1 - User pays on time: User's Unsecured Credit increases (providing all other invoices are paid on the due date in that month) as with the current UNC by 0.0006. The User will only be permitted to increase their Unsecured Credit level for a period of 2 years from the date they became a party to the UNC and as a result the maximum level that can be afforded will be 0.8% of 2% of the relevant gas transporters Regulatory Asset Value (RAV).
- Case 2 - User pays up to (and inc.) 2 days late: User's Unsecured Credit level remains unchanged and does not increase (providing all other invoices are paid within 2 days of the due date in that month), and interest is charged on the late payment.
- Case 3 – User pays more than 2 days late: User's Unsecured Credit allowance reverts to zero and interest is charged on the late payment.
- Case 4 – User pays up to (and inc.) 2 days late twice within a 12 month rolling period: the Unsecured Credit allowance reverts to zero after the second instance and interest is charged on the late payments.

For the avoidance of doubt it should be noted that all of the credit tools outlined within TPD Section V would be available to the new entrant and it is not proposed to make payment history the only tool available to a new entrant or the default option.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The proposer believes that this proposal is sufficiently clear to proceed directly to consultation

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This Modification Proposal does not affect xoserve systems or procedures and therefore it is not affected by User Pays governance arrangements.

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

Not applicable
- c) Proposed charge(s) for application of Users Pays charges to Shippers**

Not applicable
- d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable
- 3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives**

(d) so far as is consistent with subparagraphs (a) to (c) the securing of effective competition

The proposer believes that by limiting payment history to new entrants and restricting usage to 2 years does not prevent such shippers from entering the market place. However, the proposed changes confine the potential exposure/costs that maybe incurred by gas transporters, shippers and ultimately consumers, as a result of a User credit default.
- 4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

Not applicable
- 5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

 - a) The implications for operation of the System:**

Not applicable
 - b) The development and capital cost and operating cost implications:**

There would be a requirement to make minor changes to the Transporters credit monitoring arrangements.
 - c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

Not applicable
 - d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

Reduced contractual risk to gas transporters through limiting both the circumstances/duration that Payment History can be used to determine Unsecured Credit and the value that is provided.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

Not applicable

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

b) The development and capital cost and operating cost implications

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

Removing credit tool for Users older than 2years and reducing risk of pass through.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

- Reduces risk to the community of pass through
- Responsible credit

Disadvantages

- Removing a from of credit for a User older than 2 years

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V3

Proposer's Representative

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Proposer

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