

Modification Report
Administration of Unsecured Credit Afforded on the basis of Payment History and
Independent Assessment

Modification Reference Number 0147

Version 5.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4

1 The Modification Proposal

UNC Modification 0113 ‘Availability of Unsecured Credit Based on User Payment Record or Independent Assessment’ was implemented with effect from 1 May 2007.

It is proposed that the UNC is further modified to reflect the following:

Unsecured Credit Obtained by Payment History

In accordance with provisions introduced by Modification 0113, where a User is afforded unsecured credit on the basis of its payment history (UNC TPD Section V3.1.8) and subsequently a payment is not made in respect of a Transportation invoice by the Invoice Due Date, the level of a User’s Unsecured Credit Limit afforded as above will be deemed to be zero (UNC TPD V3.1.9).

It is proposed that in order to minimise the risk of a User endangering its unsecured credit limit obtained on the above basis due to failure to pay an invoice of comparatively low value, the UNC is modified to reflect the following:

Where a User fails to pay in full a Transportation invoice and the amount unpaid and outstanding is £250 or less, any Unsecured Credit afforded on the basis of payment history will be reduced by 50% on the first such occasion within a twelve month period. Any subsequent failure to pay a Transportation Invoice (in full) of any value within that twelve month period will reduce the Unsecured Credit afforded on the basis of Payment History to zero.

For the purposes of clarification, failure to pay a Transportation invoice with an amount outstanding in excess of £250 will reduce any Unsecured Credit afforded on the basis of Payment History to zero.

Unsecured Credit Obtained by Independent Assessment – Re-Assessments

In accordance with provisions introduced by Modification 0113, where a User is afforded Unsecured Credit on the basis of an Independent Assessment and any additional re-assessments are required (other than the initial assessment and an annual review), the User shall meet the full cost of such re-assessment (regardless of which party requires the re-assessment).

It is proposed that where such a re-assessment is initiated by the Transporter, the Transporter will meet the full cost of such re-assessment.

For the purposes of clarification, where such a re-assessment is initiated by the User, the User will meet the full cost of such re-assessment.

Unsecured Credit Obtained by Independent Assessment – Agencies

In accordance with provisions introduced by Modification 0113, where a User is afforded Unsecured Credit on the basis of an Independent Assessment the Transporter may appoint one of a panel of three independent credit rating agencies to provide a credit rating for a User.

It is proposed that this provision is amended to reflect that the Transporter in these circumstances selects three independent credit rating agencies, one of which the User is subsequently required to specify as the agency from which it requires the Transporter to procure the appropriate credit rating.

If this Proposal is not implemented, UNC will not reflect the recommendations contained within the Ofgem conclusions document and Transporters will not be obliged to operate this aspect of their credit arrangements in a consistent manner.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the 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;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the 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 consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination and no inappropriate barrier to entry. This measure facilitates the securing of effective

competition between relevant shippers.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Implementation would not further achievement of this relevant objectives.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications on security of supply or operation of the Total System have been identified. Incorporating elements of credit rules within the UNC may help to reduce the impacts of any industry fragmentation.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

No implications for operation of the system have been identified.

b) development and capital cost and operating cost implications:

The proposer has identified that it would incur negligible costs of making minor amendments to the operational processes and procedures to be introduced following implementation of UNC Modification 0113 (1 May 2007).

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No cost recovery mechanism is proposed.

NG NTS consider any costs would fall into the category of Transmission Operator operating costs and would therefore treat these costs in the same way as their existing Transmission Operator operating costs.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

Payment History

A Transporter would only be able to reduce a User's unsecured credit limit by 50% if the relevant outstanding amount is £250 or less whereas the provisions introduced by Modification 0113 determine that in such an occurrence the unsecured credit limit is reduced by 100%.

Independent Assessment

A Transporter would be exposed to the full cost of any additional re-assessments it initiates (other than the initial assessment and an annual review) whereas the provisions introduced by Modification 0113 determine that in such cases the costs are met by the relevant User.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No UK Link systems implications have been identified.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

When obtaining unsecured credit via an independent assessment a User will be required to 'nominate' one of the three agencies specified by the Transporter.

Development and capital cost and operating cost implications

Payment History

The potential cost (in terms of those associated with the provision of credit security) to a User of not paying a small value invoice by the due date will be reduced.

Independent Assessments

The User will no longer be liable for the costs associated with re-assessments initiated by Transporters (other than the initial assessment and an annual review).

Consequence for the level of contractual risk of Users

The contractual risk of losing unsecured credit on the basis of payment history will be reduced where the User fails to pay a low value invoice by the due date.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

A User may deem it appropriate to reflect any operational cost efficiencies in the level of charges it levies to its suppliers which may subsequently be reflected in the level of charges a supplier levies to its customers.

Dependent on the contractual arrangements in place between the respective parties, bad debt costs which are reflected in subsequent Transportation Charges may be borne in part or in full by Suppliers and subsequently consumers.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Where a Transporter secures pass through of any bad debt it incurs and demonstrates that a delay in recovery would have a material adverse effect on its financial position, Ofgem clarified in its Best Practice Guidelines that it may consider early licence modifications such that amounts can be recovered prior to the next price control period.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Alignment with Best Practice Guidelines
- For Users this reduces the adverse implications for missed payments where there is a reliance on payment history for unsecured credit.
- For Users this reduces the potential cost burden associated with independent assessments.

Disadvantages

- For Transporters this increases the potential cost burden associated with independent assessments (but this is only the Transporter that can initiate such a re-assessment).

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Organisation	Position	
British Gas Trading	BGT	Not in Support
Corona Energy	Corona	Supports
E.ON UK	EON	Supports
National Grid Distribution	NG UKD	Supports
National Grid Transmission	NG NTS	Supports
Northern Gas Networks	NGN	Supports
RWE npower	RWE	Supports
Scotia Gas Networks	SGN	Supports
Scottish and Southern Energy	SSE	Supports
Wales & West Utilities	WWU	Not in Support

BGT expressed concern that the Proposal appears to place the full financial responsibly for annual reassessment on the Transporters. They also disagree that the User is able to select the Agency for carrying out the independent assessment

SSE expressed concern that the Moody's and S&P ratings appear to be confused i.e. A and BB- are S&P not Moody's as written. They suggested that the terminology needs to be clear and consistent and that clarification is required for the range of A bands. They also expressed concern that the cure and remedy process is unclear.

WWU expressed concerns over the absence of clarity within the suggested text in respect of the allocation of an Independent Assessment Score. They also expressed a concern with withdrawing a credit limit based on Payment History in the event of a small value missed/late payment.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme for works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes)

In light of the limited works required to implement, the Proposer believes that this Modification Proposal could be implemented with immediate effect upon direction

being received from the Authority.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 19 July 2007, of the 9 Voting Members present, capable of casting 9 votes, 7 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

TPD SECTION V: GENERAL

Amend paragraph 3.1.9 to read as follows:

3.1.9 Where a User has been allocated an Unsecured Credit Limit pursuant to 3.1.8 above, and such User subsequently fails to make payment in full of any invoice (other than in respect of Energy Balancing Charges) issued in accordance with Section S:

- (a) with a total amount due of £250 or less, then such User's Unsecured Credit Limit shall be reduced by 50% from the date of such payment default; or
- (b) with a total amount due of greater than £250, or where a User fails to make payment on any other occasion within 12 Months of a default as set out in (a) above, then such User's Unsecured Credit Limit shall be reduced to zero from the date of such payment default.

The User's payment history may continue to be used following the date of any payment default as set out above to increase the reduced value of the User's Unsecured Credit Limit in accordance with paragraph 3.1.8 above.

Amend paragraph 3.1.10 to read as follows:

3.1.10 Upon request from a User, the Transporter will specify a panel of 3

independent credit rating agencies. The User may select any one of such agencies for the Transporter to use to allocate an Unsecured Credit Limit to the User as follows:

- (a) where such User is unable to obtain an Approved Credit Rating (up to a maximum of 20% of the relevant Transporter’s Maximum Unsecured Credit Limit); or
- (b) where such User has an Approved Credit Rating below Ba3 (awarded by Moody’s Investment Services or an equivalent rating by Standard and Poor’s Corporation) (up to a maximum of 13¹/₃% of the relevant Transporter’s Maximum Unsecured Credit Limit).

a score of between 0 and 10 will be allocated to the User in accordance with the following table to calculate the User’s Unsecured Credit Limit:

Independent Assessment Score	% of Transporter’s Maximum Unsecured Credit Limit
10	20
9	19
8	18
7	17
6	16
5	15
4	13¹/₃
3	10
2	6 ² / ₃
1	3 ¹ / ₃
0	0

3.1.11 Any Unsecured Credit Limit allocated in accordance with paragraph 3.1.10 shall be reviewed annually. Where any costs are incurred by the Transporter in providing an Unsecured Credit Limit in accordance with paragraph 3.1.10,

including any annual reviews, the User shall pay to the Transporter 20% of such costs incurred. All reassessments in addition to those mentioned above shall be paid for by the party requesting them.

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters