
Report for Modification Panel

July 2005

Distribution Workstream

Meetings Held

Thursday 23 June 2005, 10:00, 10 Old Bailey

Planned

The next Workstream meeting is scheduled for Thursday 28 July 2005, 10:00, 10 Old Bailey.

Matters for Panel's Attention

Attached Workstream reports, which the Workstream considers, are ready to proceed to Consultation and ask the Panel to make a determination.

- 0023 'Re-assessment of User Unsecured Credit Limits'
- 0024 'Independent security provision by an entity with an Investment Grade Rating of 'A' or above'
- 0025 'Notice Period for Credit Limit Downgrade and Remedies for Non-compliance'
- 0026 'Application of Charges consistent with Late Payment of Commercial Debts (interest) Act 1998'
- 0027 'Right of Set Off under Uniform Network'

Modifications Activity

Modification(s) Raised:

- 0031 'Re-assessment of User Unsecured Credit Limits'
- 0032 'Adjustment to the number of days in the V A R calculation to bring the Code Credit Rules into line with the Best Practice Guidelines, Conclusions document Feb 2005'
- 0033 'Notification to Users of Emergency Incidents – Impacts on Code Communications'
- 0034 'Netting off of Payments and Credits relating to Transportation Charges'

Modification(s) Withdrawn:

- 0028 'Third Party Undertakings'

Draft Modification(s) Report out for representation:

- 0005 'Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the Relevant Transporter' *Reps Close Out 11/08/05*

Final Modification(s) Report Submitted:

- 0007 'Provision and Maintenance of Large Firm Supply Point Emergency Contact Information by the Gas Transporter' *To Ofgem 07/07/05 for a Decision*
- 0017 'Amendments to the provisions governing "failure to obtain readings"'
Panel to consider and make recommendation 21/07/05

Modification(s) Implemented:

- 0029 'Metering Arrangements at Special Metering Supply Points' *Implemented 12/07/05*

Topics Activity

The Following Topics were removed:

- 003Dis **Credit Consultations**
5 Draft Modification Proposals seeking to implement recommendations identified within Ofgem's 'Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover'.
- 004Dis **Third Party Undertakings**
Draft Modification Proposal UNC Requirements

Live Topics:

- 001Dis **Primary and Sub-deduct & Unique Sites Metering arrangements**
Expiry of Unique sites metering arrangements covered by implemented MP 29 "Metering Arrangements at Special Metering Supply Points" Topic will now only cover Primary and sub-deduct information flows. Process Maps under review.
- 002Dis **Isolations for Prime & Sub-deducts**
Arrangements for Isolations. To be discussed at 28/7 Meeting
- 005Dis **Shipper Initiated Capacity Referrals**
UNC Section G5.1.4 Capacity Revision Applications. To be discussed at 28/7 Meeting
- 006Dis **DN Interruption**
Topic for future consideration as part of the exit reform
- 007Dis **Must Reads (on hold)**
WWU reviewing previous modifications

Distribution Workstream – Modification Status Report
July 2005

UNC Mod Ref	Old Mod Ref	Mod Title	Received	Organisation	Status	Status Update	Next Process
0005	0726	Provision of a Guarantee of Pressure for Meter Points operating above 21 mbar by the Relevant Transporter	28-Oct-04	Steve Mulinganie (BP Gas Marketing)	Draft Mod Report out for reps	07-Jul-05	<i>Reps Close Out 11/08/05</i>
0007	0728	Provision and Maintenance of Large Firm Supply Point Emergency Contact Information by the Gas Transporter	08-Nov-04	Steve Mulinganie (BP Gas Marketing)	Final Mod Report	07-Jul-05	<i>Ofgem Decision</i>
0017	n/a	Amendments to the provisions governing "failure to obtain readings"	03-May-05	Transco	Final Mod Report	08-Jul-05	<i>Panel consider report and make recommendation 21/07/05</i>
0023	n/a	Re-assessment of User Unsecured Credit Limits	09-Jun-05	Transco	Workstream Report Produced and Agreed	23-Jun-05	<i>Workstream Report to Panel 21/07/05</i>
0024	n/a	Independent security provision by an entity with an Investment Grade Rating of 'A' or above	09-Jun-05	Transco	Workstream Report Produced and Agreed	23-Jun-05	<i>Workstream Report to Panel 21/07/05</i>
0025	n/a	Notice Period for Credit Limit Downgrade and Remedies for Non-compliance	09-Jun-05	Transco	Workstream Report Produced and Agreed	23-Jun-05	<i>Workstream Report to Panel 21/07/05</i>
0026	n/a	Application of Charges consistent with Late Payment of Commercial Debts (interest) Act 1998	09-Jun-05	Transco	Workstream Report Produced and Agreed	23-Jun-05	<i>Workstream Report to Panel 21/07/05</i>
0027	n/a	Right of Set Off under Uniform Network Code	09-Jun-05	Transco	Workstream Report Produced and Agreed	23-Jun-05	<i>Workstream Report to Panel 21/07/05</i>
0028	n/a	Third Party Undertakings	09-Jun-05	Transco	Withdrawn	07-Jul-05	None
0029	n/a	Metering Arrangements at Special Metering Supply Points	10-Jun-05	Transco	Implemented 12/07/05 Date Signed 11/07/05	11-Jul-05	<i>Future Version of the Network Code</i>

UNC Mod Ref	Old Mod Ref	Mod Title	Received	Organisation	Status	Status Update	Next Process
0031	n/a	Re-assessment of User Unsecured Credit Limits	07-Jul-05	RWE Npower Plc	Received	07-Jul-05	To Panel 21/07/05
0032	n/a	Adjustment to the number of days in the V A R calculation to bring the Code Credit Rules into line with the Best Practice Guidelines, Conclusions document Feb 2005	07-Jul-05	RWE Npower Plc	Received	07-Jul-05	To Panel 21/07/05
0033	n/a	Notification to Users of Emergency Incidents – Impacts on Code Communications	11-Jul-05	Transco	Received	11-Jul-05	To Panel 21/07/05
0034	n/a	Netting off of Payments and Credits relating to Transportation Charges	13-Jul-05	British Gas Trading	Received	13-Jul-05	To Panel 21/07/05

Distribution Workstream – Topic Status Report
July 2005

Topic No	Date Created	Topic Originator	Topic Title	Associated Modification Proposal(s)	Priority for Discussion (H/M/L)	Description	Next Step
Active							
001Dis	31/08/2004	Transco	Primary and Sub-deduct Metering arrangements		M	Changes between pre and post RGMA information flows.	Process Map Feedback to Steve Nunnington
002Dis	26/05/2005	Transco	Isolations for Prime & Sub-deducts		H	Arrangements for Isolations	To be discussed at 28/7 meeting
005Dis	26/05/2005	Transco/Total	Shipper Initiated Capacity Referrals		H	UNC Section G5.1.4 Capacity Revision Applications	To be discussed at 28/7 meeting
006Dis	26/05/2005	BGT	DN Interruption		L	As part of exit reform.	For future consideration
On Hold							
007Dis	26/05/2005	WWU	Must Reads		L		WWU to review previous modifications

Workstream Report
Re-assessment of User Unsecured Credit Limits
Modification Reference Number 0023

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

1. The Modification Proposal

This Proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation.

This Proposal seeks to implement elements of recommendations detailed within paragraphs 3.4 to 3.9 of the conclusion document.

In accordance with the Code Credit Rules, UNC Section V3.1 details the Code Credit Limits to which Transporters and Users are obliged to adhere. A Code Credit Limit is the amount representing a Users maximum permitted Relevant Code Indebtedness being the aggregate amount, other than Energy Balancing Charges, for which a User is liable to Transco. The overall cap is currently set at £250million.

It is proposed that a Relevant Transporter sets a maximum unsecured credit limit based on 2% of its Regulatory Asset Value. Whilst this would not constrain Relevant Transporters, those who seek other levels of risk may not obtain full pass through in the event of a failure and/or may be subject to objections and disputes from counterparties.

In respect of an individual User's Unsecured Credit limit, this is currently assessed by Transco based on an Investment Grade Rating provided by an approved rating agency being either Moody's KMV or Standards & Poor's. Ofgem's paper concluded that individual counterparty credit limits and those that use Parent Company Guarantees or aggregates of both, should be set using credit ratings (provided by the aforementioned rating agencies) applied under the 'Basel 2' rules for determining bank capital adequacy. These currently are in the ratio of 1 : 2.5, 1 : 5, 1 : 7.5, for Standards & Poor's AAA/AA, A, BBB ratings (or Moody's KMV equivalent). These respectively would imply maximum credit allowances of, 100 percent for AAA/AA and 40 percent for A.

For the third band, (BBB) Ofgem proposes that the above allowance be further sub-divided, such that the following are applied to rated entities:

Standard & Poor's Credit rating	Credit allowance as % of maximum credit limit
BBB+	20
BBB	19
BBB-	18

Transco therefore proposes to amend the UNC to reflect the above method of

assessment of User Unsecured Credit Limits.

The scope of the above unsecured credit arrangements mirror the scope currently contained within the 'Code Credit Rules' and therefore Transco does not propose to facilitate unsecured credit limits for entities with Standards & Poor's ratings of BB+, BB or BB- (or Moody's KMV equivalent).

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

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

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 the existing Credit Rules within the UNC may help to reduce the prospect of 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 suggested that any costs would be minimal.

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.

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

No such consequences are anticipated.

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 systems impacts are anticipated by either Transporters or Users.

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

The proposer believes the level of credit cover to be provided to Transco by some Users would reduce, thereby potentially reducing Users' costs. Other

Relevant Transporters have identified that additional credit cover may be called for, potentially increasing costs for some Users.

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

No such implications have been identified.

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

No such consequences are anticipated.

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

Advantages

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Ensures there continue to be no inappropriate barriers to entry as a result of credit requirements
- Reduced credit cover requirements could reduce costs for some Shippers

Disadvantages

- Does not fully implement the best practice approach identified in Ofgem's conclusions document
- Further Modifications would be required to fully implement Ofgem's conclusions on best practice
- May create inconsistency between the UNC and each set of Credit Rules
- Potential for increased credit cover requirements, increasing costs for some Shippers

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

The report reflects issues raised at Workstream meetings. No written representations have been received.

Workstream attendees questioned how Regulatory Asset Value would be calculated, since this is not a defined term at present and implementation of this Proposal should ensure a clear and stable level of unsecured credit could be established for each User and each Network. The Proposer agreed to clarify this.

Workstream attendees challenged why the Proposer had not sought to implement Ofgem's best practice guidelines in full, as opposed to limiting the credit ratings to be incorporated within the UNC. A strong view was expressed that it would have been more efficient to see a single Modification Proposal consistent with the whole best practice guidelines rather than the potential for a series of further related Modification Proposals over the coming months.

Concerns were also expressed that the existence of this Modification Proposal could make development of subsequent Modification Proposals more difficult since the detail may be dependent on whether or not this Modification Proposal is implemented.

Workstream attendees sought clarity on the process for amending each Transporter's Credit Rules and whether this would be coordinated, or mandated through the implementation of modified UNC terms. Some concerns were expressed about the fact that some of the Credit Rules would remain outside the UNC even though much of them would be superseded by the UNC drafting were this Modification Proposal to be implemented.

- 12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**
Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.
- 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**
Implementation is not 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.
- 14. Programme for works required as a consequence of implementing the Modification Proposal**
No programme of works would be required as a consequence of implementing the Modification Proposal.
- 15. Proposed implementation timetable (including timetable for any necessary information systems changes)**
The Proposer believes that minimal changes would be required in respect of operational processes and procedures and therefore this Modification Proposal could be implemented with immediate effect if appropriate direction is 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. Workstream recommendation regarding implementation of this Modification Proposal**
The consensus of attendees at the Distribution Workstream meeting on 23 June 2005 was that implementation of this Modification Proposal may be expected to facilitate achievement of the Relevant Objectives. However, Shipper's felt it would have been more efficient and a better use of resources to see a wider Modification Proposal encompassing Ofgem's recommendations in full and bringing the whole of the existing Credit Rules within the UNC – thereby facilitating the Relevant Objectives further than through implementation of this Modification Proposal.

Attendees believed that, were this Proposal to be implemented, increased facilitation of the Relevant Objectives would be achieved if implementation were coincident with that of Modification Proposals 0024, 0025, and 0026 (and any subsequent related Proposals in this area) which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes associated with the various Proposals could be implemented in a coordinated and efficient manner. This would also apply to Modification Proposal 0027 if the proposed right of set off was elective for Shippers.

18. Text

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules.

Workstream Report

Independent security provision by an entity with an Investment Grade Rating of 'A' or above

Modification Reference Number 0024

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

1. The Modification Proposal

This Proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation.

This Proposal seeks to implement recommendations detailed within paragraphs 3.39 to 3.40 of the conclusion document.

Where a User requests an unsecured credit limit a credit rating is required. If an acceptable published rating is already available, this will/would be used. Alternatively, a User may arrange for an assessment by a recognised independent credit rating agency. Currently, Transco would accept credit support from an entity with BBB- rating or above.

It is proposed that independent security valued at 100 per cent of face value would be accepted subject to the following conditions:

- Credit support must be from an entity with a long term debt rating of not less than A by Standard & Poor's or Moody's KMV;
- Credit support shall be legally enforceable in the UK;
- The country of residence of the support provider must have a sovereign
- credit rating of A or better from non-local currency obligations;
- There are no material conditions preventing exercise of the security.

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

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

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 the existing Credit Rules within the UNC may help to reduce the prospect of industry fragmentation.

5. **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 suggested that any costs would be minimal.
 - 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.
 - d) **analysis of the consequences (if any) this proposal would have on price regulation:**
No such consequences are anticipated.
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 systems impacts are anticipated by either Transporters or Users.
7. **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**
There could be an increase the cost of credit cover provided by some Users.
8. **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**
No such implications have been identified.
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**
No such consequences are anticipated.
10. **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Ensures there continue to be no inappropriate barriers to entry as a result of credit requirements

Disadvantages

- May create inconsistency between the UNC and each set of Credit Rules
- Increases the cost of credit cover for some Shippers, thereby increasing industry costs

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

No written representations have been received.

No specific issues were raised by Workstream attendees with respect to this specific Modification Proposal.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

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

Implementation is not 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

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

The Proposer believes that minimal changes would be required in respect of operational processes and procedures and therefore this Modification Proposal could be implemented with immediate effect if appropriate direction is 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. Workstream recommendation regarding implementation of this Modification Proposal

The consensus of attendees at the Distribution Workstream meeting on 23 June 2005 was that implementation of this Modification Proposal may be expected to facilitate achievement of the Relevant Objectives. However, Shipper's felt it would have been more efficient and a better use of resources to see a wider Modification Proposal encompassing Ofgem's recommendations in full and bringing the whole of the existing Credit Rules within the UNC – thereby

facilitating the Relevant Objectives further than through implementation of this Modification Proposal.

Attendees believed that, were this Proposal to be implemented, increased facilitation of the Relevant Objectives would be achieved if implementation were coincident with that of Modification Proposals 0023, 0025, and 0026 (and any subsequent related Proposals in this area) which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes associated with the various Proposals could be implemented in a coordinated and efficient manner. This would also apply to Modification Proposal 0027 if the proposed right of set off was elective for Shippers.

18. Text

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules

Workstream Report

Notice Period for Credit Limit Downgrade and Remedies for Non-compliance

Modification Reference Number 0025

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

1. The Modification Proposal

This Proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation.

This Proposal seeks to implement elements of recommendations detailed within paragraphs 3.50 to 3.54 of the conclusion document.

Uniform Network Code (UNC) Section S3.1 details the invoice payment terms to which Users are obliged to adhere. UNC Section V3.2.4 makes provision for Transporters to review in accordance with the Code Credit Rules a User's Code Credit Limit. This can only take place if a User's (or User's security provider) published credit rating is downgraded.

Currently, the credit limit reduction can only take effect after a notice period of thirty-days or a lesser period agreed by the User. It is proposed that where such a credit rating is reduced, this be reflected by the Transporter with a minimum notice period of two Business Days or a lesser period agreed by the User

Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05 identified that where such a reassessment of a User's credit rating leads to a need for revision, the notice period for additional security should be one day rather than the current 30 days. However, Transco believes that one-day notice period is untenable for both Transporters and Users as this provides insufficient time make the necessary arrangements including any required electronic payments.

It is further proposed that where a User does not comply with any request to provide additional security, the following would apply. The User will be in default (all monies will effectively become overdue and payable):

Number of days after default	Action suggested
Day 0	Due date
Day +1	Interest and administration fee trigger
Day +1	Transporter to issue a formal notice of default as to statement of position and how default is to be remedied
Day +3	Formal User response is required

Day +5

Ability to suspend registration of Supply Points

It is proposed that in all instances, interest and administration fees should be charged, in accordance with the above timetable and in line with the amounts detailed in the Late Payment of Commercial Debts (Interest) Act 1998. This Act permits a creditor to recover compensation as follows:

Size of the late paid debt	Value of Compensation that can be claimed
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

It is proposed that interest be charged in respect of the credit 'shortfall' at a rate equal to the Bank of England base rate plus eight percentage points per annum. This rate is calculated by adding 8 per cent to the reference rate, which is the Bank of England base rate on 30 June and 31 December each year. This rate is applicable for the following six-month periods i.e. 1 July to 31 December and 1 January to 30 June respectively. Transco believes that this would act as an incentive to ensure appropriate credit arrangements are in place.

It is further proposed to utilise any other legal remedy available. It is anticipated that this would prompt a User to take the required action.

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

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

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 the existing Credit Rules within the UNC may help to reduce the prospect of industry fragmentation.

6. 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 suggested that any costs would be minimal.

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.

- d) **analysis of the consequences (if any) this proposal would have on price regulation:**
No such consequences are anticipated.
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 systems impacts are anticipated by either Transporters or Users.
7. **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**
The Proposal may increase costs for some Users. It may not be practical for Users to put in place the required security within the minimum timescale proposed.
8. **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**
No such implications have been identified.
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**
No such consequences are anticipated.
10. **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Ensures there continue to be no inappropriate barriers to entry as a result of credit requirements
- Significant reduction in time available to take required steps following a downgrade (reduced Transporter risk)

Disadvantages

- Significant reduction in time available to take required steps following a downgrade (increased Shipper risk)
- May create inconsistency between the UNC and each set of Credit Rules
- Potentially increases some Users' costs through application of penal interest rate

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

The report reflects issues raised at Workstream meetings. No written representations have been received.

The Workstream expressed concern that the proposed two day notice period did not provide sufficient time to take the required steps following a downgrade – the proposal fails to recognise commercial realities. This period should therefore be a minimum and the flexibility of a longer period may be useful. Clarity regarding how days were to be defined was also sought, with the conclusion that this should be business days. In addition questions were raised about the concept of a minimum period and how this was aligned with the table in the proposal, which appeared to be automatic with a fixed timetable rather than the two days being the minimum rather than a requirement.

Some Users' queried why 8% above Base Rate was proposed when this is identified as a maximum in the *Late Payment of Commercial Debts (Interest) Act 1998* when suitable contractual remedies are not available. The present 3% above base rate was suggested as being sufficient, and had not been an issue. The Transporters emphasised that this had not been tested one way or the other with respect to a downgrade.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

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

Implementation is not 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

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

Changes would be required in respect of operational processes and procedures were this Modification proposal to be implemented. The Proposer suggests that a lead-time of one calendar month will be required for implementation of the Modification Proposal if so directed.

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. Workstream recommendation regarding implementation of this Modification Proposal

The consensus of attendees at the Distribution Workstream meeting on 23 June 2005 was that implementation of this Modification Proposal may be expected to facilitate achievement of the Relevant Objectives. However, Shipper's felt it would have been more efficient and a better use of resources to see a wider Modification Proposal encompassing Ofgem's recommendations in full and bringing the whole of the existing Credit Rules within the UNC – thereby facilitating the Relevant Objectives further than through implementation of this Modification Proposal.

Attendees believed that, were this Proposal to be implemented, increased facilitation of the Relevant Objectives would be achieved if implementation were coincident with that of Modification Proposals 0023, 0024, and 0026 (and any subsequent related Proposals in this area) which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes associated with the various Proposals could be implemented in a coordinated and efficient manner. This would also apply to Modification Proposal 0027 if the proposed right of set off was elective for Shippers.

18. Text

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules.

Workstream Report

**Application of Charges consistent with Late Payment of Commercial Debts
(Interest) Act 1998**

Modification Reference Number 0026

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

1. The Modification Proposal

This Proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation arrangements.

This Proposal seeks to implement elements of recommendations detailed within paragraphs 3.53 to 3.57 of the conclusion document.

UNC Section S3.1 details the invoice payment terms to which Users are obliged to adhere. UNC Section S3.5 makes provision for Transporters to charge interest where any amount payable under an Invoice is not paid on or before the Invoice Due Date. The "Applicable Interest Rate" at which interest will be applied if payment is not made in accordance with UNC Sections S3.1 and S3.5 is detailed within UNC Section S3.6. At present this "Applicable Interest Rate" is the base rate of Barclays Bank plc plus three percentage rates per annum.

Ofgem's document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05 paper identifies that a User be penalised if it fails to pay in accordance with the UNC. The application of interest for late payment is intended to be a deterrent and the Consultation concludes that the existing rate of interest as defined in UNC Section S3.6 is not at a sufficient level to be an effective deterrent to all Users. This is because it may be more economic for Users to incur an interest charge from the Transporter than to loan funds from a bank or other financial body and pay the invoice on its payment due date.

It is proposed that the 'Applicable Interest Rate' be amended to reflect the rate contained within the Application of the Late Payment of Commercial Debts (Interest) Act 1998 being at a rate equal to the Bank of England base rate plus eight percentage points per annum. Transco believes that this would act as an incentive to ensure that payments are made in accordance with prevailing contracts. This rate is calculated by adding 8 percentage points to the reference rate, which is the Bank of England base rate on 30 June and 31 December each year. This rate is applicable for the following six-month periods i.e. 1 July to 31 December and 1 January to 30 June respectively.

It is also proposed that the Transporter will charge a fee to cover the additional administration that late payment incurs. The Late Payment of Commercial Debts (Interest) act 1998 permits a creditor to recover compensation

as follows:

Size of the late paid debt	Value of Compensation that can be claimed
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

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

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.
- 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 the existing Credit Rules within the UNC may help to reduce the prospect of industry fragmentation.
- 7. The implications for Transporters and each Transporter of implementing the Modification Proposal , including**
 - a) implications for operation of the System:**

No such implications have been identified.
 - b) development and capital cost and operating cost implications:**

The proposer has suggested that any costs would be minimal.
 - 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.
 - d) analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences are anticipated.
- 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 systems impacts are anticipated by either Transporters or Users.]
- 7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

The incentive for prompt payment may increase costs for some Users and would thereby potentially increase Users' level of contractual risk.

- 8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**
No such implications have been identified.

- 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**
No such consequences are anticipated.

- 10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Ensures there continue to be no inappropriate barriers to entry as a result of credit requirements

Disadvantages

- May create inconsistency between the UNC and each set of Credit Rules
- Potentially increases some Users' costs through application of penal interest rate

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

The report reflects issues raised at Workstream meetings. No written representations have been received.

Some Users' queried why 8% above Base Rate was proposed when this is identified as a maximum in the *Late Payment of Commercial Debts (Interest) Act 1998* when suitable contractual remedies are not available. The present 3% above base rate was suggested as being sufficient, and any higher rate should not apply to all Shippers but could reflect the criteria set out within the Act. The Transporters emphasised that this had been tested and persistent late payment had been experienced, suggesting that 3% was not a sufficient incentive.

- 12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**
Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

- 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**
Implementation is not 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

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

Changes would be required in respect of operational processes and procedures were this Modification proposal to be implemented. The Proposer suggests that a lead-time of one calendar month will be required for implementation of the Modification Proposal if so directed.

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. Workstream recommendation regarding implementation of this Modification Proposal

The consensus of attendees at the Distribution Workstream meeting on 23 June 2005 was that implementation of this Modification Proposal may be expected to facilitate achievement of the Relevant Objectives. However, Shipper's felt it would have been more efficient and a better use of resources to see a wider Modification Proposal encompassing Ofgem's recommendations in full and bringing the whole of the existing Credit Rules within the UNC – thereby facilitating the Relevant Objectives further than through implementation of this Modification Proposal.

Attendees believed that, were this Proposal to be implemented, increased facilitation of the Relevant Objectives would be achieved if implementation were coincident with that of Modification Proposals 0023, 0024, and 0025 (and any subsequent related Proposals in this area) which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes associated with the various Proposals could be implemented in a coordinated and efficient manner. This would also apply to Modification Proposal 0027 if the proposed right of set off was elective for Shippers.

18. Text

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules

Workstream Report

Right of Set Off under Uniform Network Code

Modification Reference Number 0027

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

1. The Modification Proposal

This Proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation arrangements.

This Proposal seeks to implement recommendations detailed within paragraph 3.49 of the conclusion document.

Under the UNC, Transporters may issue either credit or debit invoices to Users, payable by the Transporter or the User within terms specified in the UNC.

Historical evidence demonstrates that the net position is usually that a User owes the Transporter more than the Transporter owes to the User.

It would be beneficial to Transporters and Users in terms of administration burden if (in respect of Transportation services only) a Transporter had the ability to offset amounts it was due to pay to the User against any invoice value that the User is due to pay the Transporter.

This right of set off would only be available where:

- a. the relevant Transporter was the same party in respect of both the credit and debit amounts, and
- b. the relevant User was the same party in respect of both the credit and debit amounts.

Currently UNC Section S3.3 does not permit offsets and therefore Transco proposes that the UNC be modified to permit the off set of User credit amounts against User debit amounts (in respect of Transportation services only) as recommended within Ofgem's Consultation.

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

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

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 the existing Credit Rules within the UNC may help to reduce the prospect of industry fragmentation.

8. The implications for Transporters and each Transporter of implementing the Modification Proposal , including

a) implications for operation of the System:

No such implications have been identified.

b) development and capital cost and operating cost implications:

The proposer has suggested that any implementation costs would be minimal and outweighed by subsequent operational cost savings.

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.

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

No such consequences are anticipated.

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 implications have been identified.

Users have identified that significant systems changes would be needed and that a minimum three month lead time (preferably six to nine) should be allowed if the right of set of is not elective for Shippers.

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

Administratively, implementation of the Modification Proposal has the potential to reduce Shippers' costs if there are no systems implications. Provided it is elective for Users to choose to use this facility, costs would be expected to be reduced.

If use of the proposed facility is mandatory for Shippers, Users would anticipate increased costs.

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

No such implications have been identified.

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

No such consequences are anticipated.

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

Advantages

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Ensures there are no inappropriate barriers to entry as a result of the credit rules
- Potentially reduces industry costs if elective for Shippers

Disadvantages

- Would create significant system problems and costs for some Shippers if mandatory

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

The report reflects issues raised at Workstream meetings. No written representations have been received.

Shipper attendees at the Workstream consider that the proposed set-off mechanism should only operate with the agreement of both parties and should not be mandatory. This would enable Shippers with systems that could readily accommodate the change to elect to do so, thereby reducing their costs. It was considered likely to be uneconomic for many Shippers with systems developed on the basis of existing practice, such that they would not elect to use the right of set off, at least initially.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

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

Implementation is not 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

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

Changes would be required in respect of operational processes and procedures were this Modification proposal to be implemented. The Proposer suggests that a lead-time of one calendar month will be required for implementation of the Modification Proposal if so directed.

Shipper attendees at the Workstream suggested that a lead time of six to nine months would be appropriate, but an absolute minimum three months notice should be given if set off is not elective for Shippers.

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. Workstream recommendation regarding implementation of this Modification Proposal

The consensus of Attendees at the Distribution Workstream meeting on 24 June 2005 was that implementation of this Modification Proposal could only be expected to facilitate achievement of the Relevant Objectives if Shippers could elect whether or not to use the facility. However, and again provided it is elective, they believed that increased facilitation would be achieved if implementation were coincident with that of Modification Proposals 0023, 0024, 0025, and 0026 which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes could be implemented in a coordinated and efficient manner.

18. Text

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules