

Modification Report
RG0252 Proposal 9: Administration of Shipper Credit Security Contact Details
Modification Reference Number 0306
Version 4.0

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

WWU raised Review Group 0252 “Review of Network Operator Credit Arrangements” in April 2009. This was convened to discuss the appropriateness of the existing credit management arrangements, taking into account the many credit related issues which had occurred since the publication of Ofgem’s “Best practice guidelines for gas and electricity network operator credit cover” (BPG) document.

Background

Currently there exists no centralised register or requirement for up to date Shipper credit contact details, which creates difficulties for Transporters in relation to maintaining up-to-date credit security processes. As a result this may create delays in applying sanctions to Shipper Users and recovering debt which may cause unrecoverable bad debt for Transporters. Currently the existence of non up- to-date contact details provides for an inefficient process and increases unnecessary administrative costs and risk to the Transporter.

Proposal

The intent of this UNC Modification Proposal is to introduce a centralised Shipper credit security contact register which will be administered on behalf of Transporters by their agency.

This UNC Modification Proposal, if implemented, would introduce UNC obligations onto Shipper Users to provide credit security contact details at the point of initial accession to the UNC and subsequently where there are any amendments to these details. The Agency’s role would be to update the database with the information provided.

The Transporters agent will update the contact register with the following details that will need to be provided by each Shipper User:

- a single telephone number
- a single facsimile number
- Credit Contact name

Credit Contact address WWU raised Review Group 0252 “Review of Network Operator Credit Arrangements” in April 2009. This was convened to discuss the appropriateness of the existing credit management arrangements, taking into account the many credit related issues which had occurred since the publication of Ofgem’s “Best practice guidelines for gas and electricity network operator credit cover” (BPG) document.

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Shipper credit contact details for Transportation Charges, which creates difficulties for Transporters in relation to maintaining up-to-date credit security processes. As a result this may create delays in applying sanctions to Shipper Users and recovering debt which may cause unrecoverable bad debt for Transporters. Currently the existence of non up- to-date contact details provides for an inefficient process and increases unnecessary administrative costs and risk to the Transporter.

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The Transporters agent will update the contact register with the following details that will need to be provided by each Shipper User in relation to Transportation Charges:

- a single telephone number
- a single facsimile number
- Credit Contact name
- Credit Contact address

2 User Pays

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

This Proposal is not classified as a User Pays Modification Proposal as it does not create or amend any User Pays services.

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

No User Pays charges applicable.

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

No User Pays charges applicable to Shippers.

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

No charges applicable for inclusion in ACS.

3 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 would better facilitate this relevant objective as it improves the likelihood of collecting debt and mitigating bad debt risk.

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... 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 of this Proposal would better facilitate this relevant objective as it would improve the efficiency of the working of UNC TPD Section V.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) Implications for operation of the System:

There are no implications for operation of the System.

b) Development and capital cost and operating cost implications:

There will be a minimal cost to develop and operate a credit contact database in relation to Transportation Charges.

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

No additional cost recovery is proposed.

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

Not applicable.

6 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

The contractual risk of each Transporter may be reduced.

7 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 such implications have been identified.

8 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)

Shipper Users will be required to provide credit security contact details in relation to Transportation Charges to the Transporter's agent; this would be a minimal impact.

Development and capital cost and operating cost implications

No implications have been identified.

Consequence for the level of contractual risk of Users

The level of risk is unaltered by this Proposal.

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

No implications have been identified.

10 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 consequences have been identified.

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

Advantages

- All DNOs would have access to a central database in case of credit issues in relation to Transportation Charges.
- The sanction process would be more efficient and conducted in a timely manner.
- This would reduce the Transporter risk to debt recovery.

Disadvantages

No disadvantages have been identified.

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

Organisation	Response
British Gas Trading	Supports
EDF Energy	Qualified Support
E.ON UK	Supports
First:utility	Supports
National Grid Distribution	Supports
National Grid NTS	Qualified Support

Northern Gas Networks	Supports
RWE npower	Comments Offered
Scotia Gas Networks	Supports
ScottishPower	Supports
SSE	Supports
Wales & West Utilities	Supports

In summary, of the 12 representations received, 9 supported implementation of the proposal, 2 offered qualified support, and 1 offered comments.

British Gas Trading considered that simply holding the information does not guarantee a response, e.g. in the event of the relevant contact going on holiday, sick leave, maternity leave etc. Further, it believed that the legal text should include an element of reasonable endeavours. For example, would it be appropriate to require update of the central database in the event of a one day absence? Or a one week absence? Or a one month absence? What about in the event of unplanned absence from work by the named contact?

EDF Energy expressed the following concerns as to the need for this Proposal:

- A UNC modification is not required to facilitate this requirement. In particular EDF Energy has historically raised the issue of notifying Transporters of a change to 24 hour emergency contact details, with some Transporters providing numerous contacts to provide this up date to, and others providing none. Rather than raising a UNC proposal and obligation to facilitate this, this was resolved through gaining Transporter agreement to provide this information on a contact list. Given the importance of emergency contact details compared to Security Contact details, EDF Energy do not consider this modification is proportionate.
- This Proposal only places a requirement on Shippers and not on Transporters. In particular, independent GDNs are required to provide Security Contact details to National Grid. EDF Energy recently had to update security contact details, and whilst this was successful for the majority of Transporters, they were unable to update one as it was unclear who should be updated. This resulted in a PCG lapsing and the relevant Transporter being unable to contact the correct individual in EDF Energy. Given that the issue appears to focus not only on Shippers providing up to date details, but also Transporters we do not consider a one sided arrangement appropriate.
- Maintenance of a contact list. Recently arrangements were put in place for the Transporters' Agency to maintain and ensure that the list of emergency Shipper contacts were up to date.

E.ON UK expressed concerns that the Proposal will bring consistency in credit arrangements between Transporters, but noted that it is unfortunate that this service cannot be extended to keeping Shippers updated about changes in contact details at Transporters. Shippers face the same challenges as Transporters in keeping up to date with contact detail changes.

RWE npower would be interested to see the Legal Text alongside the Modification Proposal. Guidance is also required on how this information will be gathered from those Users who have already acceded to the UNC. RWE npower considers that the contact register should also be utilised to articulate notifications referred to in TPD Section V3.3.1 of the UNC.

13 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.

14 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.

15 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.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

It is suggested that this Proposal be implemented on 01 October 2010 to coincide with the implementation of the other credit proposals being considered in this timeframe. Should this date not be achievable, then implementation could take place immediately following an Authority direction.

17 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.

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

At the Modification Panel held on 19 August 2010, the eleven Panel Members present determined by PANEL MAJORITY to recommend implementation of the Proposal, with ten Members voting in favour.

The Panel Chair noted that twelve responses had been received, of which nine supported implementation of the proposal, two offered qualified support, and one offered comments. He suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

The Panel Chair summarised that Proposal 0306 seeks to introduce a centralised Shipper credit security contact register for Transportation Charges that would be administered on behalf of Transporters by their agency. This would be expected to help ensure that appropriate contact could be made to clarify and progress credit related issues. Implementation would therefore be expected to facilitate effective competition and efficient administration of the UNC.

The EDF Energy Panel member was not convinced the proposal would have any impact on debt and so how implementation would meet the relevant objectives. The National Grid Distribution Panel member suggested that, notwithstanding this, the approach would be more efficient and therefore facilitate the efficient administration of the UNC.

19 Transporter's Proposal

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

20 Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION V – GENERAL

2 USER ADMISSION

2.1 Admission requirements

2.1.1 In order to become a Shipper User in relation to a System a person (the "**Applicant User**") must:

- (a) satisfy or secure satisfaction of the requirements in paragraph 2.1.2; and
- (b) accede to the relevant Shipper Framework Agreement and thereby agree to be bound by the Code.

2.1.2 The requirements referred to in paragraph 2.1.1(a) are as follows:

- (a) the Applicant User shall have applied to the Transporter, in such form as the Transporters may from time to time prescribe, giving the following details:

- (i) the name of the Applicant User;
 - (ii) the legal nature of the Applicant User, and where the Applicant User is not a company incorporated under the Companies Act 1985 (as amended), such further information concerning the constitution of the Applicant User as the Transporter may reasonably require;
 - (iii) the address and telephone and facsimile numbers of the Applicant User, and the individual for whose attention notice is to be marked, for the purposes of notice under GT Section B5.2.3 and B5.3.1;
 - (iv) where the Applicant User is not a company incorporated under the Companies Act 1985 (as amended), an address for service in accordance with paragraph GT Section B6.6.3;
- (b) either:
- (i) a Shipper's Licence shall have been granted to the Applicant User which is in force and in respect of which no notice of revocation has been given, and the Applicant User shall have provided a copy of such licence to the Transporter; or
 - (ii) a Shipper's Licence shall be treated as having been granted to the Applicant User pursuant to a scheme made under paragraph 15 or 16 of Schedule 5 to the Gas Act 1995;
- (c) in relation to an LDZ of which National Grid is not the owner or operator, the Applicant User is, or will be, a Shipper User under National Grid's Network Code at the User Accession Date;
- (d) the Applicant User shall have secured compliance with those requirements of Section U which are required to be complied with before a User is able to send and receive UK Link Communications, including without limitation:
- (i) the installation and connection of the UK Link User Equipment and the UK Link User Software either at:
 - (1) the Applicant User's premises; or
 - (2) where the Applicant User secures the services of a User Agent for the installation and connection of the UK Link User Equipment and Software, at the User Agent's premises, provided that where the User Agent ceases or is unable (for any reason) to provide such services, then the Applicant User shall, as soon as is reasonably practicable after such cessation, secure the installation and connection of the UK Link User Equipment and the UK Link User Software at the Applicant User's premises;
 - (ii) the appointment of one or more Authorised Representatives;
- (e) the Applicant User shall have provided the emergency contact details required under Section Q2.2;
- (f) the Applicant User shall have obtained from the Transporters one or more copies of the Code and such other documents referred to in the Code or the Shipper Framework Agreement as the Transporters shall from time to time prescribe for the purposes of this paragraph (f);
- (g) the Applicant User shall have been assigned an initial Code Credit Limit in accordance with paragraph 3;
- (h) in relation to the NTS, the Applicant User shall have been assigned an initial Secured Credit Limit in accordance with Section X.
- (i) the Applicant User shall have provided the Transportation Charges contact details as required under Section 3.4.7;

3 CODE CREDIT LIMITS

3.4 Security under Code

3.4.1 Any instrument of surety or security provided by a User pursuant to paragraph 3.4.6 (and whether or not entered into by the User) shall not be a part of the Code nor an Ancillary Agreement; and no provision of or modification of the Code, nor any inconsistency between the Code and any such instrument, and nothing done by the Transporter pursuant to the Code, shall prejudice or invalidate any such instrument.

3.4.2 Where a User has provided surety or security pursuant to paragraph 3.4.6 the User (or the person giving the surety) may request the Transporter to release all or any of such security or agree to a reduction in any maximum amount of such surety.

3.4.3 Following a request by a User under paragraph 3.4.2, the Transporter will as soon as reasonably practicable and, except where the User also requests a review (by an agency appointed by the Transporter for such purposes) and revision of its Code Credit Limit, in any event not more than 10 Business Days after such request, release security, or agree to a reduction in surety, to such extent or by such amount as will permit the condition in paragraph 3.4.4 to be satisfied.

3.4.4 The condition referred to in paragraph 3.4.3 is that the amount of the User's Value at Risk, at the date of such release or reduction is not more than 100% of the amount of the User's Code Credit Limit, determined in accordance with the Code on the basis of the release of security or reduction in surety (and taking account of any alternative surety or security provided by the User).

3.4.5 For the purposes of Code:

“Bi-lateral Insurance” shall mean an policy of insurance (that is unconditional in order to attain 100% of its face value) for the benefit of the Transporter, provided by a Qualifying Company and in such form as is acceptable to the Transporter;

“Deposit Deed” shall mean an agreement that is Enforceable and in such form as provided to the User from time to time by the Transporter enabling the deposit of cash as surety or security or advance payments by a User;

“Enforceable” shall mean the Transporter (acting reasonably) is satisfied that the instrument of security is legally enforceable and in this respect, where security is provided by a company registered outside of England and Wales, the country of residence of such company must have a sovereign credit rating of at least A awarded by Moody's Investors Services or such equivalent rating by Standard and Poor's Corporation (where such ratings conflict, the lower of the two ratings will be used) and the User shall at its own expense provides such legal opinion as the Transporter may reasonably require;

“Letter of Credit” shall mean an unconditional irrevocable standby letter of credit in such form as provided to the User from time to time by the Transporter from such bank as the Transporter may approve, (provided that payment may be made at a United Kingdom branch of such issuing bank) with a long term debt rating of not less than A provided by Moody's Investors Services or such equivalent rating by Standard and Poor's Corporation (where such ratings conflict, the lower of the two ratings will be used);

“Guarantee” shall mean an on demand irrevocable guarantee or performance bond provided by a Qualifying Company or a Parent Company that is Enforceable and in such form as provided to the User from time to time by the Transporter;

“Prepayment Agreement” shall mean an agreement between the Transporter and the User that is Enforceable and in such form as provided to the User from time to time by

the Transporter with the purpose of enabling a User to make payments of amounts calculated on a monthly basis by the Transporter (using an accrual methodology set out therein) as representing the Transporter's estimate of the amounts (other than in respect of Energy Balancing Charges) which will become due by the User to the Transporter in a charging month;

“Parent Company” shall mean:

(i) in the case of a company registered in England and Wales a public or private company within the meaning of section 1(3) of the Companies Act 1985 with a long term debt rating of at least BB- provided by Standard and Poor's Corporation or equivalent rating by Moody's Investors Services (where such ratings conflict, the lower of the two will be used) that is either a shareholder of the User or any holding company of such shareholder (the expression holding company having the meaning assigned thereto by section 736, Companies Act 1985 as supplemented by Section 144(3) Companies Act 1989); or

(ii) in the case of an entity registered outside of England and Wales, such equivalent entity to (i) above that is acceptable to the Transporter, acting reasonably;

“Qualifying Company” shall mean:

(i) in the case of a company registered in England and Wales a public or private company within the meaning of section 1(3) of the Companies Act 1985 with a long term debt rating of at least A provided by Moody's Investors Services or equivalent rating by Standard and Poor's Corporation (where such ratings conflict, the lower of the two will be used); or

(ii) in the case of an entity registered outside of England and Wales, such equivalent entity to (i) above that is acceptable to the Transporter, acting reasonably;

3.4.6 A User may extend its exposure beyond its Unsecured Credit Limit by providing surety or security in one or more of the forms set out below:

- (a) Bi-lateral insurance; and/or
- (b) Letter of Credit; and/or
- (c) Guarantee; and/or
- (d) Deposit Deed; and/or
- (e) Prepayment Agreement;

provided that where an instrument of surety or security is conditional, the Transporter may agree with the User a value below 100% of its full face value. Where the value of the instrument of surety or security cannot be agreed between the User and the Transporter, the User may refer such dispute to Expert Determination in accordance with GT Section A, paragraph 2.

3.4.7 Each User shall provide to the Transporter:

- (a) a single telephone number, a single address and a single facsimile number by means of which the Transporter may contact a representative of the User for any purpose pursuant to Transportation Charges in connection with Section V3 and/or V4; and
- (b) the name(s) or title(s) of the User's representatives who may be contacted at such numbers and address; and
- (c) such User shall inform the Transporter where there are any amendments to the details provided pursuant to this section V3.4.7.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters