

Modification Report
RG0252 Proposal 5: Definition of Regulatory Asset Value (RAV) when calculating
Maximum Unsecured Credit
Modification Reference Number 0302
Version 3.0

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.

This specific proposal allows Transporters and Users to use each relevant Transporter’s most up to date published Regulatory Asset Value (RAV) position when determining a Users maximum unsecured Transportation credit limit. This will be achieved by referencing the RAV published by the Authority, for each Transporter, in its relevant Price Control Final Proposals for the price control period.

The RAV value will then be published by each Transporter (annually) clearly setting out the period within which it operates for the purposes of calculating a User’s maximum unsecured credit limit. It is anticipated that the RAV value utilized will change in April each year.

For example, currently the RAV values which Wales & West Utilities will utilise are referenced in the Gas Distribution Price Control Review (GDPCR) Final Proposals Supplementary Appendices (table A 14.8 – December 2007).

The table below, sets out these published values (which are shown in non adjusted 05/06 prices).

	2008-9	2009-10	2010-11	2011-12	2012-13
	£M	£M	£M	£M	£M
RAV	1235.0	1284.6	1365.8	1404.5	1442.4

National Grid Transmission operates to a different price control period (currently within a 2007-2012 period), and will illustrate its RAV (and any uplift to take account of prior year pricing values) within any publication of its RAV for the purposes of this proposal.

The existing UNC provisions below have been interpreted in the past to indicate that the RAV only changes when a relevant price control period starts (typically 5 years).

UNC TPD Section V 3.1.1

For the purposes of the Code:

(a) the “Regulatory Asset Value” is the value of the relevant Transporter’s regulated assets as published from time to time by the Authority.....

The Transporter will determine and assign to each User a Code Credit Limit, which may comprise of an Unsecured Credit Limit calculated in accordance with paragraph 3.1.3 and/or security or surety provided in accordance with paragraph 3.4. The Transporter shall keep each User informed of its Code Credit Limit (as revised in accordance with the Code) for the time being. The Transporter shall limit the Unsecured Credit Limit to any User and related company to a maximum of two percent (2%) of the Regulatory Asset Value (The “Maximum Unsecured Credit Limit”)....

As a consequence of the proposal, Transporters can operate a consistent approach by using the most relevant and up to date RAV value published by Ofgem and updated to current prices, for the purpose of calculating a Maximum Unsecured Credit Limit value for Users.

Suggested Text

V 3.1.1 For the purposes of the Code:

- (a) the “Regulatory Asset Value” is the value of the relevant Transporter’s regulated assets as published ~~from time to time~~ by the Authority at the start of any Transporter’s relevant price control period which will be published and updated to current year prices by the Transporter for the sole use of establishing a Users Maximum Unsecured Credit Limit.

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 subparagraph (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 subparagraphs (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 subparagraphs (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;

Effective competition between relevant shippers would be better facilitated by ensuring the appropriate maximum unsecured credit limit was afforded to Users based on the most up to date RAV position of the Transporter(s). Similarly, a uniform approach to the use of the most relevant RAV would provide each Transporter with the same level of risk based on its most up to date RAV.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (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 subparagraphs (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 be expected to better facilitate this relevant objective.

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 are no cost implications.

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

Not applicable.

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 is potentially increased by this Modification Proposal. This phased increase in RAV (as year on year a Transporters RAV will ordinarily increase) will therefore increase the amount of unsecured credit available to Users.

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 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)

Users may have to amend their administrative and operational processes to take account of any revised unsecured credit limit based on a more recent RAV established by this Modification Proposal.

Development and capital cost and operating cost implications

To be advised by Users.

Consequence for the level of contractual risk of Users

An annual (phased) increasing RAV (and therefore maximum unsecured credit limit for Users) may increase the overall industry bad debt risk should a User's bad debt ultimately be passed to Users through Transportation charges.

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

- formalising the definition of the RAV to be used across Transporters for the purposes of Maximum Unsecured Credit will provide certainty for all parties on tools for establishing a maximum unsecured credit limit using this RAV value.
- provides Users a more up to date (and therefore appropriate) level of maximum unsecured credit.

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	Supports
E.ON UK	Supports
First:utility	Supports
National Grid Distribution	Supports
National Grid NTS	Supports
Northern Gas Networks	Supports
RWE npower	Supports
Scotia Gas Networks	Supports
ScottishPower	Supports
SSE	Comments Offered
Wales & West Utilities	Supports

In summary, of the 12 responses received, 11 supported implementation of the Proposal and 1 offered comments.

EDF Energy considered that there are a number of issues that should be addressed. In particular it noted that:

1. Under the proposal it is anticipated that the RAV is updated every April. It would be beneficial to identify how much notice Shippers would have of this proposed change? Whilst this may not be an issue when RPI is positive (and so RAV and unsecured credit limits are increasing) this could create an issue with negative RPI as recently experienced. This could potentially require Shippers to lodge additional credit and so it is important that they are given sufficient notice for this.
2. It is proposed that the RAV values published by Ofgem are updated to “current prices”. EDF Energy considers it would be beneficial were the Transporters to provide clarity on the methodology that they will adopt for this.

National Grid Distribution noted that the values specified within the Gas Distribution Price Control Review (GDPCR) Final Proposals document (December 2007) detail non-adjusted 2005/2006 values and suggested that a consistent Transporter approach to adjusting such prices to determine the RAV for the respective years would be desirable.

RWE npower considered that the proposed Legal Text only articulates the “Transporter’s relevant price control period which will be published and

updated to current year prices by the Transporter". However, RWE npower believed by updating the Legal Text to specify how, when and where this information will be communicated, this would provide Users with better access to this information.

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 no earlier than 01 December 2010 to allow any Shipper credit positions to be managed sensibly should there be a need to amend them.

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 meeting held on 19 August 2010, the Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

The Panel Chair noted that twelve responses had been received, of which eleven supported implementation of the Proposal 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 0302 seeks to change the UNC definition of Regulatory Asset Value from that published by Ofgem from time to time, to that set for each price control, updated to current prices. This would ensure that maximum secured credit limits based on a proportion of RAV would reflect an up to date, published, value. This would remove the uncertainty within the existing UNC provisions regarding how this value should be calculated, and would ensure consistent application by all Transporters. By increasing consistency and transparency of the credit arrangements, implementation would facilitate the achievement of effective competition. However, this would be dependent on there being sufficient clarity regarding the proposed values.

The EDF Energy Panel member suggested it would be helpful to understand how this proposal would be implemented – how and when would updated Raves be published, and which RPI figures would be used for updating to current prices?

19 Transporter's Proposal

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

20 Text

**UNIFORM NETWORK CODE
TRANSPORTATION PRINCIPAL DOCUMENT
SECTION V - GENERAL**

V 3.1.1 For the purposes of the Code:

the "**Regulatory Asset Value**" is the value of the relevant Transporter's regulated assets as published ~~from time to time~~ by the Authority at the start of any Transporter's relevant price control period which will be published and updated to current year prices by the Transporter for the sole use of establishing a Users Maximum Unsecured Credit Limit.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters