

Modification Report
RG0252 Proposal 2: Alignment of portfolio sanctions across UNC TPD Sections V and S
Modification Reference Number 0299
Version 2.0

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 seeks to align the timelines in which Transporters **may** elect to apply portfolio sanctions (on Users), where a Users credit/payment position(s) is not in line with UNC requirements. The two existing UNC references (below) set out the circumstances and different timeframes within which sanctions currently operate.

UNC TPD Section S 3.5.3

Without prejudice to any rights of the Transporter under the Code, including without limitation those under Section V4.3, where, in relation to any amount (or amounts in aggregate) of not less than £10,000 which has become due for payment by a User under the Code (excluding for the avoidance of doubt amounts which are the subject of an Invoice Query which by virtue of paragraph 4.2.2 have not become due for payment) and the relevant User has not paid the amount in full by the due date for payment the Transporter shall be entitled to reject or refuse to accept all or any of the following by the relevant User.

- a) An application for System Capacity or increased System Capacity at any System Point under Section B or Section G; and
- b) A system Capacity Trade under Section B5 in respect of which the User is Transferee User; and
- c) A Supply Point Nomination or Supply Point Confirmation under Section G, other than a Supply Point Renomination or Supply Point Reconfirmation (unless made in the context of an application under paragraph (a) (above))

With effect from the day after the due date for payment until such time as the relevant User has paid the amount due for payment in full

UNC Section V 3.3.2

- d) Where from the fifth Business Day after the date specified in the notice, the Users Value at Risk exceeds 100% of the Users Code Credit Limit, the Transporter
- e) Transporter shall be entitled to reject or refuse to accept a Supply Point Nomination or a Supply Point Confirmation under Section G, other than a Supply Point Renomination or Supply Point Reconfirmation until such

time as the User's Value at Risk (VAR) and is reduced to less than 100% of its Code Credit Limit.

This UNC modification proposes that in **both** instances, the Transporter may impose portfolio sanctions within one business day (currently five in respect of VAR), should the User breach either of these two UNC clauses.

Suggested Text

V 3.3.2

- (d) Where from the ~~fourth~~ Business Day after the date specified in the notice, the Users Value at Risk exceeds 100% of the Users Code Credit Limit, the Transporter shall be entitled to reject or refuse to accept a Supply Point Nomination or a Supply Point Confirmation under Section G, other than a Supply Point Renomination or Supply Point Reconfirmation until such time as the User's Value at risk is reduced to less than 100% of its Code 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 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;

This objective would be better facilitated by securing effective competition through ensuring the appropriate fiscal controls on Users, thereby reducing the likelihood of Users indebtedness being exacerbated by an increasing portfolio (and therefore (potential) maximum unsecured cost exposure).

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;

Aligning the timeframes by which portfolio sanctions may be applied has the potential to make the administration of the Uniform Network Code more efficient and consistent.

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 reduced by this Modification Proposal, as it seeks to lessen the number of business days in which a User can continue to increase its portfolio (and therefore credit exposure) from five business days to one, when in a credit limit breach scenario.

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)

To avoid potential portfolio sanctions, Users would need to ensure that they could action any 100% VAR notification (as agreed with the Transporter) in the required timeframe.

Development and capital cost and operating cost implications

To be advised by Users.

Consequence for the level of contractual risk of Users

Closer alignment of the portfolio sanctions will **reduce** all Users overall industry bad debt risk, should a Users bad debt ultimately be borne by a Transporter(s) who could (subject to Authority approval) pass through

Transportation charges to all Users.

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

Consumers may benefit from this Proposal as they may no longer be at risk of joining a User which (potentially) could be suffering financial difficulties. Given that some suppliers/shippers require a deposit from new customers prior to trading, the likelihood of any such deposit being lost (in part or in whole) from a subsequently defaulting User is lessened (in that new customers cannot be taken on).

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

- consistent measures within UNC obligations to protect Transporters from bad debt.
- lessens risk of bad debt costs being absorbed by wider shipper community, via bad debt pass through via Transportation charging.
- protects consumers from potentially entering into contractual arrangements by electing to join a shipper in financial distress.

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
E.ON UK	Not in Support
First:utility	Supports
National Grid Distribution	Supports
National Grid NTS	Supports
Northern Gas Networks	Supports

RWE Npower	Qualified Support
Scotia Gas Networks	Supports
ScottishPower	Supports
SSE	Supports
Wales & West Utilities	Supports

In summary, of the 11 responses received, 9 supported implementation, 1 offered qualified support, and 1 opposed implementation of the Proposal.

First:utility considered that the risk of all market participants should be reduced by the alignment of UNC TPD Sections V3.3.2 and S3.5.3 in relation to the allowed time period following a User's VAR exceeding 100% of its Code Credit Limit, where a Transporter can reject Supply Nominations and Confirmations under UNC TPD Section G.

E.ON UK considered that the reduction from five days to one day in which portfolio sanctions can be applied seems overly harsh, potentially disproportionate, and leaves little room for remedial action by the User, or for mistakes on either User or Transporter side to be corrected (such as an incorrect VAR calculation). E.ON UK's key concern was that this shortened time limit may lead Transporters to act hastily, which could have serious consequences for a User's business if portfolio sanctions are imposed prematurely.

RWE npower considered that the Proposal's Legal Text should be modified as it is unclear as to what "the date specified in the notice" refers, as to whether this is the issue date of the notice or the date by which action should have been taken to reduce indebtedness.

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 Panel meeting held on 19 August 2010, the eleven Voting Members present determined by PANEL MAJORITY to recommend implementation of the Proposal, with ten votes cast in favour.

The Panel Chair noted that eleven representations had been received, of which nine supported implementation, one offered qualified support, and one opposed implementation of the Proposal. 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 0299 seeks to reduce the period after which sanctions can be applied when a User's Value at Risk exceeds 100% of the User's Code Credit Limit. This is presently five business days and would be reduced to one. This would be expected to reduce the likelihood of continuing User indebtedness without appropriate credit cover, and hence implementation would strengthen the credit arrangements and facilitate the securing of effective competition. However, it could also be argued that the restriction to just one business day would be unduly harsh and not allow Users sufficient time to make alternative arrangements.

In addition to strengthening the credit arrangements, implementation would align the credit requirements in Sections S and V of the UNC. This would facilitate a single process being in place, such that implementation would be consistent with promoting efficient implementation and administration of the UNC.

Members supported this summary.

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

For and on behalf of the Relevant Gas Transporters:

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