

**CODE MODIFICATION PROPOSAL No 0299**  
**RG0252 Proposal 2: Alignment of portfolio sanctions across UNC TPD Sections V and S**  
**Version 2.0**

**Date:** 09/06/2010

**Proposed Implementation Date:** 01/10/2010

**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this 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.

- b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

Not applicable.

- c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

This Proposal was originally developed within the remit of Review Group 0252, which recommended alignment of these two clauses. Further discussions have taken place within the Distribution and Transmission Workstreams in May and June 2010. [All comments received in these Workstreams have been reflected in the proposal. Accordingly the Proposer believes the Proposal is sufficiently developed and clear to enable it to proceed to consultation.

## **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.

- 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 this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives**

The Proposer believes that implementation would further the GT Licence ‘Code relevant objective(s)’ of Standard Special Condition A11. Network Code and Uniform Network Code

<b>Condition</b>	
1a- efficient and economic operation of the pipeline system to which licence relates	
1b- co-ordinated, efficient and economic operation of (i) combined pipeline system and/or (ii) pipeline system of one or more other relevant gas transporters	
1c- consistent with (a) and (b) above, efficient discharge of licensees obligations	
1d- securing of effective competition between  <b>(i) Relevant shippers</b>  (ii) Relevant suppliers and/or  (iii)DN operators	✓
1e-provision of reasonable economic incentive for relevant suppliers to secure that domestic customer supply standards are satisfied	
<b>1f- promotion of efficiency in the implementation and administration of the uniform network code</b>	✓

1d- The Proposer believes 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).

1f- Aligning the timeframes by which portfolio sanctions may be applied has the potential to make the administration of the Uniform Network Code more efficient & consistent.

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

No such implication has been identified.

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

**a) The implications for operation of the System:**

No such implication has been identified.

**b) The development and capital cost and operating cost implications:**

No such implication has been identified.

**c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

No additional cost recovery is proposed.

**d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this 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.

**6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

No such requirement has been identified.

**7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

No changes have been identified.

**8 The implications for Users of implementing the Modification Proposal, including:**

**a) The 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-

**b) The development and capital cost and operating cost implications**

To be advised by Users.

**c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

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 the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, 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 in whole) from a subsequently defaulting User is lessened (in that new customers cannot be taken on should portfolio sanctions be applied by a Transporter at an earlier stage).

**10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

No such consequence has been identified.

**11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above**

**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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

No such representations have been received, save for the support received during the Review Groups work.

**13 Detail of all other representations received and considered by the Proposer**

No such representations have been received.

**14 Any other matter the Proposer considers needs to be addressed**

The proposer believes that no additional matters require consideration.

**15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal**

It is suggested that this Proposal be implemented on 1<sup>st</sup> 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

**16 Comments on Suggested Text**

The suggested amendment to TPD V3.3.2 aligns the UNC sanctions available under S3.5.3

**17 Suggested Text**

V 3.3.2

- (d) Where from the ~~four~~ 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 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.

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** V3.3.2

**Proposer's Representative**

Simon Trivella (Wales & West Utilities)

**Proposer**

Simon Trivella (Wales & West Utilities)