

**CODE MODIFICATION PROPOSAL No 0303**  
**RG0252 Proposal 6: Obligation for Users to maintain a Code Credit Limit and at a**  
**reasonable level**  
**Version 2.0**

**Date:** 09/06/2010  
**Proposed Implementation Date:** 01 December 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 takes account of any User which having provided the required securitised position to satisfy User admission criteria, subsequently opts to manage its Code Credit Limit (CCL) and security/surety position in a manner which potentially transfers unacceptable risk onto the wider User community.

This new proposal will oblige any User who receives 100% VAR notices in two consecutive calendar months to establish a CCL to the value of the highest 100% VAR notice in the preceding two month period. The new (proposed) UNC text is set out below

For the purposes of the Code:

Having satisfied the User admission criteria, a User shall ensure that its Code Credit Limit is not unreasonable. A Code Credit Limit shall be deemed unreasonable if a Transporter issues more than one 100% VAR notice within 2 consecutive calendar months to a User. Should a User’s Code Credit Limit be deemed unreasonable, the Transporter may apply portfolio sanctions under S3.5.3, until such time as the User has a Code Credit Limit no smaller than the largest VAR value quoted in the notices issued in the preceding 2 month period. Once a level of credit has been put in place in accordance with this paragraph V3.1.9, any sanctions applied will be removed within one business day.

For the avoidance of doubt monies paid on account (in isolation of other securitised credit limits) do not form a CCL for the purposes of this proposal.

It should be noted that Users are currently given notice if they are approaching a 100% VAR notice (wherever possible), and that this

proposal does not in any way amend the rules or procedures by which 100% VAR notices are issue by Transporters to Users.

**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 an obligation on Users to provide security at a reasonable level beyond User admission criteria. Further discussions have taken place within the Distribution and Transmission workstreams in May and June 2010. [All relevant comments received in these workstreams have been reflected in the proposal]. Accordingly the Proposer believes the Proposal is sufficiently developed 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 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 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

Condition	
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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> <b>(ii) Relevant suppliers and/or</b> <b>(iii)DN operators</b>	✓
1e-provision of reasonable economic incentive for relevant suppliers to secure that domestic customer supply standards are satisfied	
1f- promotion of efficiency in the implementation and administration of the uniform network code	✓

1d- The Proposer believes that implementation would further the GT Licence ‘Code relevant objective’ of securing effective competition between relevant shippers by ensuring the appropriate credit limit was afforded to shippers based on their credit limit and proven ability to pay. Similarly DN operators would be operating consistent credit rules for all shippers based on this criteria where credit limits were consistently applied based on historical exposure and non adherence by Users to an acceptable level of credit cover.

1f – Consistency of approach determining what constitutes an unreasonable CCL provides efficiency in the implementation of the UNC.

**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 ensures a User which breaches its 100% VAR credit position within a 2 month timeframe is required to increase its CCL to a reasonable level to protect the Transporter (potentially Users) from potential bad debt.

**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)**

Users may have to amend their administrative and operational processes to ensure a reasonable CCL is in place to avoid any repeated VAR notices being issued by the Transporter.

**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**

The aggregate contractual risk for all Users will reduce, as this proposal requires any User who is repeatedly issued with a VAR notice due the absence of an adequate credit limit, to securitise a reasonable credit limit, (or risk having its portfolio growth restricted through sanctions). This approach therefore reduces the overall industry bad debt risk should a Users bad debt ultimately (subject to Ofgem approval) be passed through by a Transporter(s) through Transportation charges.

**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)**

No implications have been identified

**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**

- ensures all Users have adequate credit limit commensurate with their exposure to Transportation charges.
- reduces likelihood of any defaulting User potentially having its bad debt allocated to other Users via Transportation charges.
- prevents Users taking on new customers (who may have to provide security) when the Users future may be uncertain.

**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 from 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> December 2010. 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 V3 takes account of the revised rules governing any User who receives 100% VAR notifications within 2 consecutive calendar month periods.

**17 Suggested Text**

V 3.1.9 For the purposes of the Code:

Having satisfied the User admission criteria, a User shall ensure that its Code Credit Limit is not unreasonable. A Code Credit Limit shall be deemed unreasonable if a Transporter issues more than one 100% VAR notice within 2 consecutive calendar months to a User. Should a Users Code Credit Limit be deemed unreasonable, the Transporter may apply portfolio sanctions under S3.5.3, until such time as the User has a Code Credit Limit no smaller than the largest VAR value quoted in the notices issued in the preceding 2 month period. Once a level of credit has been put in place in accordance with this paragraph V3.1.9, any sanctions applied will be removed within one business day.

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** V3

**Proposer's Representative**

Simon Trivella (Wales & West Utilities)

**Proposer**

Simon Trivella (Wales & West Utilities)