

CODE MODIFICATION PROPOSAL No 0307
RG0252 Proposal 10: Alignment of Defaulting User Threshold with Insolvency Act
(1986) Threshold
Version 2.0

Date: 10/06/2010
Proposed Implementation Date: 01 October 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.

Background

Currently UNC TPD V4.3.1 stipulates that a User Default occurs where a Shipper User’s debt is in excess of £10,000 and accordingly the relevant Transporter is entitled to issue a Termination Notice to the Defaulting User, pursuant to TPD V4.3.3. In addition to each individual Transporter’s potential exposure to £10,000 there is currently a mis-alignment between the UNC and the Insolvency Act (1986) where the prescribed debt limit is set to £750. Prior to Distribution Network sales, where there existed a single Transporter organisation, the £10,000 limit may have been appropriate, specific to these circumstances, however post Distribution Network Sales, where there exists five Transporter licence holders the potential exposure to total debt across all organisations is up to £50,000.

The intent of this Modification Proposal is to align UNC Section V 4.3.1 (a) with the Insolvency Act 1986 thereby having the effect of reducing the £10,000 threshold to £750 in relation to circumstances where a Shipper User can be defined as a Defaulting User. This also ensures the limit is appropriate going forward by linking it to the Insolvency Act 1986 rather than an arbitrary value.

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. This approach has been shared at Distribution and Transmission workstreams in December 2009, and January, May, June 2010. 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

Not applicable

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

Not applicable

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

Not applicable

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 A11.1 Network Code and Uniform Network Code

| | |
|--|------------|
| Condition | |
| 1a- efficient and economic operation of the pipeline system to which licence relates | ✓ |
| 1b- coordinated, 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 (i) Relevant shippers (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 | |
| 1f- promotion of efficiency in the implementation and administration of the uniform network code | |

The proposer believes the implementation of this UNC Modification Proposal would better facilitate Standard Special Condition

- A11.1 (a) by reducing the cost of operating the pipeline system by reducing the risk of exposure of the Transporter to bad debt without an offsetting income where a Shipper User has incurred a level of debt.
- A11.1 (d) (i) by reducing the risk of Transporters applying to the Authority for a Pass through of unrecovered debt to other Shipper Users
- A11.1 (d) (iii) by reducing the likelihood for each Transporter of incurring bad debt.

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 implications have been identified.

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

No such implications have 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 to each Transporter would be reduced following the implementation of this Modification Proposal as the amounts each Transporter could potentially be exposed to, prior to being able to issue a Termination Notice, would be reduced.

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)

No implications have been identified.

b) The development and capital cost and operating cost implications

No implications have been identified.

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

A Users contractual risk will be higher as the debt trigger level will be reduced

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

- Alignment of the UNC Section V4.3.1 (a) and the Insolvency Act 1986
- This would reduce Transporters financial risk exposure by allowing an earlier

issue of a Termination Notice (when compared with prevailing arrangements)
where appropriate

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.

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 1st 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

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V4.3.1 (a) & 4.3.2

Proposer's Representative

Joel Martin, for Scotia Gas Networks

Proposer

Joel Martin, for Scotia Gas Networks

