

CODE MODIFICATION PROPOSAL No 0298
RG0252 Proposal 1 - Amend and remove UNC TPD Section V3 text inconsistencies, errors and bi-lateral insurance clause
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 Ofgems “Best practice guidelines for gas and electricity network operator credit cover” (BPG) document.

This specific proposal resolves a number of anomalies in UNC TPD Section V which do not clearly provide the required credit position for Users or Transporters. There are also a small number of typographical errors being corrected together with the removal of a redundant clause (bi-lateral insurance).

Typographical errors aside there are three main elements to this proposal

- I. Removing a misinterpretation of BPG 4.7 which states “Where a counterparty experiences a material change in its level of trade, a reassessment of required credit cover may be necessary. Where this has occurred as a result of an improved charge forecast by the NWO, counterparties should have one month’s notice of any need to increase collateral”.

Currently, the UNC interprets this to mean that an additional 30 days be allowed (for a User to arrange credit facilities) following a change which must be a minimum 20% increase **and** be linked to an increase in Transportation charges.

This UNC Modification Proposal seeks to exchange the 20% to a material test (allowing a discussion between Transporters and Users in any specific instance), together with the reason being altered from a price change (which could be anticipated) to an event which could not be anticipated (e.g. an imposed portfolio increase due to industry change).

- II. Removal of bi-lateral insurance term from UNC. Despite being a defined term, no Transporter or User has been able to establish what form this would take should it be sought as a form of surety or

security. In the absence any identified provider of this product, it is appropriate to remove the term so as to avoid confusion. It is unhelpful for the UNC to provide a form of surety or security that no party can offer.

III. Removal of 80% value of Surety or Security clause in UNC V3.3.2 (a).

There was concern in the RG0252 as to enforceability of this clause, coupled with confusion as to its intent which could not be adequately linked to the BPG. In light of these views, it is deemed appropriate to remove the clause so as to avoid confusion and potential inconsistency within the UNC.

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 identified within the remit of Review Group0252, which recommended amending the UNC to correct these anomalies and to remove a clause which may serve to confuse (given that it was not an option for Transporters and Shippers to utilise). These proposals have also been shared 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 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. Network Code and Uniform Network Code

Condition	
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 (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	✓

1d- The Proposer believes that competition between shippers will be more effective, because the proposed changes more clearly allow for the adoption of appropriate credit terms should a User not operate its credit position in the required manner. Similarly, competition will be more effective as any User whose portfolio increases materially in an unanticipated manner, will be given an appropriate time period to alter its credit limit position without any sanctions being applied.

1f- Removing a redundant clause (bi-lateral insurance) will promote efficiency since no party will waste time considering a credit instrument which is unavailable.

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 Transporters is unaltered by this proposal, however given that it removes a credit term that in theory should be available to consider, it can be argued the proposal lessens the Transporters risk.

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

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

Contractual risk of Users is improved by this proposal as it provides sufficient time for a User to increase its credit limit should its portfolio grow due to an unanticipated event.

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

- removes redundant clause from credit terms (bi-lateral insurance)
- corrects incorrect and incomplete referencing in TPD Section V.
- better defines a scenario under which increased security is required and in what timeframe

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 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

The suggested amendments to TPD Section V correct the drafting anomalies and remove the redundant Section V clause relating to bi-lateral insurance.

17 Suggested Text

~~V 3.1.4 Subject to paragraph 3.1.7, Where a User~~

V 3.2.4 A User's Code Credit Limit may from time to time be reviewed and revised, in accordance with the Code, save where either paragraphs 3.2.5, ~~or 3.2.6 or 3.2.8~~ applies

V3.2.9 Where a Users Code Credit Limit has been revised downwards in accordance with paragraph 3.2.4 (c) or 3.2.5 above,

V 3.2.11

~~Notwithstanding paragraph 3.2.10, where at any time as a direct consequence of an increase in the relevant Transporter's Transportation Charges, a User's Value at Risk is increased by over 20% from the previous day, a User will have one calendar month from the date of notice given by the relevant Transporter to provide additional surety or security and after the expiry of such date, paragraphs 3.2.10(a) and (b) shall apply~~

Notwithstanding paragraph 3.2.10, where at any time as a direct consequence of an unanticipated increase in a Users registered aggregate **Supply Point Capacity**, a User's Value at Risk increases materially, a User will have one calendar month from the date of notice given by the relevant Transporter, to provide additional surety or security and after the expiry of such date, or paragraphs 3.2.10(a) and (b) shall apply.

V3.3.2 Without prejudice to paragraph ~~V~~3.3.3

~~V 3.3.2 (a) the amount of such surety or security required shall be increased to that amount required to reduce the User's Value at Risk to below 80% of its Code Credit Limit and any surety or security provided by such User shall be deemed to be valued at 80% of its face value for the following 12 calendar months; and~~

3.4.5 For the purposes of Code:

~~**"Bi lateral Insurance"** shall mean an policy of insurance (that is unconditional in order to attain 100% of its face value) for the benefit of the Transporter, provided by a Qualifying Company and in such form as is acceptable to the Transporter;~~

3.4.6 A User may extend its exposure beyond its Unsecured Credit Limit by providing surety or security in one or more of the forms set out below:

- (a) ~~Bi-lateral insurance; and/or~~
- (b) (a) Letter of Credit; and/or
- (c) (b) Guarantee; and/or
- (d) (c) Deposit Deed; and/or
- (e) (d) Prepayment Agreement;

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V

Proposer's Representative

Simon Trivella (Wales and West Utilities)

Proposer

Simon Trivella (Wales and West Utilities)