

**CODE MODIFICATION PROPOSAL No 0315**  
**To Enhance Section X of the UNC Transportation Principal Document to improve the**  
**Energy Balancing Further Security Process**  
**Version 1.0**

**Date:** 07/07/2010

**Proposed Implementation Date:**

**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this Proposal**

**Background**

The Energy Balancing Credit Committee (EBCC) keeps under constant review the credit arrangements in Section X of the UNC Transportation Principal Document. It has identified a weakness in the existing rules in respect of Further Security Requests. Further Security Requests are raised following a number of breaches of a User's Secured Credit Limit.

Modification 629 implemented 14<sup>th</sup> May 2003 introduced provision to the UNC in respect of Further Security Requests, its primary aim being to encourage Users to maintain the appropriate level of security to cover its energy balancing activities. Following operation of these provisions since this time, analysis of the number of instances of such requests has evidenced an issue in respect of repeated failures. Some Users have received a number of Further Security Requests within a short period of time demonstrating that insufficient security is held.

The rules currently do not prevent a User from simply 'topping up' their Security to meet their short term requirements. This means that where a User is running a persistent imbalance the rules do not act as adequate incentive to ensure that the User maintains the appropriate level of Security to accommodate the level of their energy balancing activities and avoid repeatedly receiving cash calls and Further Security Requests.

The EBCC considered various solutions to this problem. On the 23<sup>rd</sup> October 2009 the EBCC met and agreed that the proposed solution as the most appropriate. Corona Energy agreed to adopt the proposal and raise it as a UNC modification.

The proposal aims to extend the provisions of Section X2.10 to make provision for the deemed value of the User's existing Security held to be scaled back by 20% to act as an incentive to break the cycle of repeated failure through the cash call and resulting Further Security Request process. Further it aims to incentivise the User to maintain the correct level of Security to accommodate the level of its energy balancing activities.

The EBCC credit experts discussed various levels of scale back that could be implemented. There was unanimous agreement that a level of 20% was the most appropriate as it believed to be a sufficient incentive without being

punitive. It was recognised however that this level would require monitoring and could require changing in the future if evidence suggested the level was set too high or too low.

NB: Please note an example has been attached that shows the effect of this modification where a user is running a persistent imbalance on its inputs and outputs and this results in FSR's.

### The Proposal

The current provisions require the User to maintain Security at the peak level of indebtedness for a period of no less than 90 Days from the date of any FSR issued (providing that conditions of UNC Section 2.3.5 have been met). It is proposed to extend the provisions in Section X2.10 so that the deemed value (face value) of the User's Security would be reduced by 20% as soon as is reasonably practicable following the 3<sup>rd</sup> FSR within the 28 day measurement period. The aggregate level of security will remain in place for a minimum period of 12 months from the issue date of the 3<sup>rd</sup> FSR.

Any 3<sup>rd</sup> FSR in a new '28 day measurement period' that takes place within the duration of the '12 month re-basing period' will trigger a further 20% reduction in the face value of security held and a new '12 month re-basing period' will commence.

Once any '12 month re-basing period' has expired and the User has not had any further FSRs, a subsequent Cash Call will commence a new '28 day measurement period'.

Once any '12 month re-basing period' finishes, without any further '12 month re-basing periods' being triggered, any security values held may now be returned at the User's request providing that conditions of UNC Section x2.3.5 have been met.

The Proposer believes that this proposed change draws on the learning from Transportation Credit Arrangements where similar actions are taken in accordance with V 3.3.2 where a User fails to comply with a request for increased Security within a defined period of time.

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

No Urgency required.

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.**

Refer to Transmission Work Stream for discussion.

## **2 User Pays**

### **a) Classification of the Proposal as User Pays or not and justification for classification**

There are no additional xoserve operating costs associated with this Modification proposal as provisions for charging is within the Agency Service Agreement. Were any costs to be identified then it is proposed that this modification should not be user pays as it relates to a service that is provided under the GT's licence and is therefore a core service.

### **b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

Under prevailing Energy Balancing Arrangements it is believed that the cost associated for the recovery, provisions are within the Agency Service Agreement. Were this not to be the case then it is proposed that the costs of this modification should be borne initially by the GT and recovered through the neutrality smear in line with other costs that relate to energy balancing credit such as credit checking such as banking charges.

### **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**

**c. so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;**

We believe that this change will enhance the Gas Transporter's compliance with Standard Special Condition A15 "Agency".

Section 3 states that where these services are provided by a common service provider the contract with this agent shall be based on the following principles

(i) "such services and systems shall be established, operated and developed on an economic and efficient basis."

This change will have little or no cost impact but will improve the performance of the process by minimizing the financial risk to other code Users of another User

defaulting. This change therefore improves the economy of the process.

**d. so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant shippers and between relevant suppliers;**

Implementation of this Modification would (in comparison to the existing process) affect a User who is repeatedly cash called within 28 days and therefore receives 3 or more Further Security Requests. This User would either be required to provide a greater level of Security else or would fall below their cash call limit and would be referred to the EBCC to solve their credit issues (see attached example in appendix i).

Either of these outcomes would reduce the risk to other code users of the failure of a single code user. This minimises the financial risk to Users and therefore reduces the costs of being active in the gas shipping market.

The EBCC believes however that Users would be aware of the rules and upon receipt of a second FSR, would provide sufficient credit rather than risk a 20% reduction in the deemed value of their credit. This change would therefore act as an incentive against the ‘topping up’ behaviour previously described.

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

The implementation of this proposal should not have any affect on security of supply, operation of the Total System or industry fragmentation.

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

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

No implications have been identified.

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

No costs 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 costs have been identified. However where any additional costs are identified will be added as a new element to the balancing neutrality mechanism based upon additional FTE required to maintain process.

- 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**

No consequences identified.

- 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 requirements have 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 such requirements 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 adverse administrative and operational implications identified. However this will be monitored regularly if implemented and discussed at the EBCC meeting.

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

No development costs 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**

This proposal would reduce User's contractual risk as it will reduce the risk of Users defaulting on an unsecured debt.

- 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)**

Implication identified would be on Users to provide additional Security where the trigger has been met.

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

No such implications identified.

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

**Advantages**

Users will be encouraged to provide adequate Security at all times.

Will maintain Users confidence that risk of default is being managed effectively.

**Disadvantages**

Adds a level of complexity to the arrangements.

**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)**

None received.

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

The modification has been developed by the EBCC.

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

None

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

It is recommended that this proposal be implemented immediately following agreement by Authority.

**16 Comments on Suggested Text**

Section 2.10.3

**17 Suggested Text**

**Section 2.10 Further Security Request**

In the event where a user having a 3<sup>rd</sup> Further Security Request within the 28 day measurement period, the deemed value (face value) of the User's Security would be reduced by 20%. This total security should remain in place for a period of 12 months from the issue date of the 3<sup>rd</sup> FSR. The total security held, following a 3<sup>rd</sup> FSR issued within a 28 day measurement period, within the 12 month re-basing period, will result in a further 20% reduction in the face value of security and the commencement of a new 12 month re-basing period.

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**Code Concerned, sections and paragraphs**

**Uniform Network Code**

**Transportation Principal Document**

**Section(s)** 2.10

**Proposer's Representative**

Richard Street – Corona Energy Retail

**Proposer**

Gary Russell – Corona Energy Retail