

## TOTAL GAS & POWER LIMITED

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Dear Julian,

### **Modification Proposals 0111 "Management of Users Approaching and exceeding Upper Limits of Credit Limit"**

Total Gas & Power Limited gives qualified support to the implementation of Modification Proposal 0111.

#### **Our comments are as follows:**

At present each Transporter may take action to procure additional security when a Shipper's indebtedness exceeds 85% of it allowed credit. This trigger recognises that any calculated indebtedness may not reflect the exact requirements to cover a Shipper's outstanding liabilities. A movement towards a 100% trigger before any action can be taken may expose the market to unrecoverable debts and so we have some concerns over this aspect of the modification.

Concerning the new requirements for Shippers to provide additional credit when 100% indebtedness is breached, we appreciate that to minimise exposure to the market, the modification shortens the timescales for the defaulting Shipper to rectify the breach. As has been highlighted in responses to previous modifications (specifically Modification 0025) however, it may not be possible for a Shipper to procure credit within such a short timeframe and so we give qualified support to this aspect of the modification.

With regard to the part of the Modification Proposal that grants the Transporter the right to recover liquidated damages, we agree that a defaulting Shipper should be liable for any costs incurred in rectifying that default and so support this concept.

As we are required to judge the modification in its entirety, we feel that some beneficial changes are being mitigated by the increased exposure to the market the rest of this modification creates. We therefore must qualify our support. We would have preferred for these issues to have been addressed separately so they could have been judged individually on their own merits.

#### **Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

##### ***Gas Transporter Licence Standard Special Condition A11.1***

- (a) *the efficient and economic operation of the pipe-line system to which this licence relates;*



Does not apply to this objective.

- (b) *so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Does not apply to this objective.

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

Does not apply to this objective.

- (d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:(i) between relevant shippers;(ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Increasing the indebtedness that is permitted to a Shipper before any additional credit is required will enhance competition by overall reducing credit costs. Other Users covering any bad debts that are incurred due to a higher permitted indebtedness level will mitigate these benefits to competition however.

- (e) *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers; and*

Does not apply to this objective

- (f) *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Does not apply to this objective.

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

We do not believe there are any implications on security of supply, operation of the total system and industry fragmentation as a result of this modification.

### **The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

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

No implications identified for Transporter Networks.

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

We do not anticipate that any significant development, capital or operating cost implications will be incurred.



**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

Do not anticipate any costs requiring recovery outside of allowed revenue

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

No consequences identified.

**The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

Increasing the amount of indebtedness that a User may accumulate, prior to any steps being taken to limit additional exposure, will increase the amount of bad debt that may be incurred and hence increase contractual risk.

**The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

No changes are anticipated.

**The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Allowing individual Shippers the ability to accumulate additional indebtedness prior to lodging further security will reduce credit costs for those Shippers concerned and allow additional operational flexibility. Other Shippers however will be exposed to higher levels of bad debts being passed through if a Shipper does default, and hence this increases contractual risk.

With regard to the timescales required to lodge additional credit, it is our opinion that they do not allow sufficient time for such credit to be procured, and therefore Shippers will be subjected to restrictions for short periods of time while security is lodged. This increases commercial risk.

**The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No implications identified.

**Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

Adjusting the trigger levels before actions can be taken will give greater contractual freedom to Users. It will also restrict the ability of Transporters to take action to secure debts and may result in debt being passed through to Shippers. Shortening the timescales for additional security to be lodged in the event of a breach will place greater obligations on Users to procure credit in a timely fashion.



## **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

### **We have identified the following advantages:**

- Reduces the amount of credit cover to be lodged by Shippers
- Provides Transporters with the ability to recover costs incurred due to Shippers breaching credit limits.

### **We have identified the following disadvantages:**

- Increases exposure to Shippers of bad debts.
- Does not provide adequate time for Shippers to provide additional credit before sanctions are invoked.

### **The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Not required for this purpose

### **The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Not required for this purpose

### **Programme for works required as a consequence of implementing the Modification Proposal**

The modification requires significant changes to the credit checking process to enable implementation.

### **Proposed implementation timetable (including timetable for any necessary information systems changes)**

We concur with the proposer that this modification requires development work to allow implementation and therefore a delay is appropriate.

### **Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications identified

### ***Further Comments***

None

Should you wish to discuss our response further, please feel free to contact me.



Yours faithfully

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