# Action TR1101 - Shipper Termination Rules

Transmission Workgroup – 04 December 2014

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# Background

- Identified that in limited circumstances the Termination rules do not prevent a Shipper from deferring their NTS Entry Capacity obligation i.e.
  - where a Shipper operates at a single point on the NTS sets up a new Shipper entity
  - then transfers (trades) its existing NTS Entry Capacity to the new Shipper entity for a later date (please note the Shipper that transfers capacity TO another shipper is the Transferor, the other party to the Transfer is the Transferee)
  - the Transferor subsequently terminates
  - the Transferee can elect to become the registered capacity holder (they can assume financial responsibility for the System Capacity) for the transfer period
- A number of options have been previously outlined and additional information on the advantages and disadvantages of each option has been requested.
- NG would like to reiterate that there is no obvious solution to this issue and has brought these options forward for discussion, we are happy to work with the industry in the development of any of the options identified or any alternative options that may be identified.

# Background - Options

1. Trading/Termination :
   a. where a trade is between parent companies/subsidiaries or between Shippers that are part of the same company group, the transferee will not be given the opportunity to become the Registered Capacity holder and all the capacity is recalled to be made available to the market (UNC TPD B & V).
   b. as above but will apply to all trades
2. Trading/Credit – where credit sanctions are in place due to insufficient credit, existing UNC sanctions are extended to prevent a Shipper trading their capacity to any another party – this will require changes to UNC TPD B & V.
3. Credit/Termination - where credit is not put in place 12 months prior to the point of use of the capacity the Shipper may be terminated. This could be done by:
   a. switching on UNC TPD V 3.2.10 (a) & (b) so Shippers would incur a charge for not putting credit in place which could then be invoiced, if this invoice is not then paid they could be terminated.
   b. amending UNC TPD V making termination the default position after both the 80% and 100% VAR notices are issued and not acted upon

## Option 1a – Trades between parent companies/subsidiaries or Shippers that are part of the same company group

- Pro's:
  - Removes incentive that underpins issue
  - Simple Modification to draft
  - Simple to implement, no system development required just an amendment of internal NG process
- Con's:
  - May impact on existing contractual arrangements between Transferor and Transferee
  - Potential Commodity charge implications e.g. if Transferee does not become Registered holder of Capacity and no other party acquires it via Auctions
  - Recall of Capacity impacts Transferee, will need to be mitigated via notification process. However no guarantee that Transferee will be able to acquire the recalled capacity.
  - May result in Bad Debt for NG

## Option 1a – Trades between parent companies/subsidiaries or Shippers that are part of the same company group

- Con’s:
  - Potentially Discriminatory;
    - Each Licensee is a separate Legal entity irrespective of Group/Parent Company etc
    - UNC is a common set of rules to ensure competition can be facilitated on level terms
    - Currently Licensees can enter into Capacity Transfers under a common set of rules and be treated equally
    - Post 1a some licensees may be materially disadvantaged due to reduced rights to Transferred capacity despite a willingness to assume full financial responsibility for the Transferred Capacity

## Option 1b – All Trades between Shippers

- Pro's:
  - Removes incentive that underpins issue
  - Simple Modification to draft
  - Simple to implement, no system development required just an amendment of internal NG process
  - Treats all parties equally
- Con's:
  - May impact on existing contractual arrangements between Transferor and Transferee
  - Potential Commodity charge implications e.g. if Transferee does not become Registered holder of Capacity and no other party acquires it via Auctions
  - Recall of Capacity impacts Transferee, will need to be mitigated via notification process. However no guarantee that Transferee will be able to acquire the recalled capacity.
  - May result in Bad Debt for NG

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## Option 2 – Credit Sanctions amended to include Transfers out

- Pro’s:
  - Removes incentive that underpins issue
  - Simple Modification to draft
  - Potentially simple to implement, assess whether sanction can be applied with existing system functionality, if no system development required just an amendment of internal NG process
- Cons:
  - May accelerate Shipper default i.e. income from the transfer may mitigate any financial issues for the Transferor
  - Potential Commodity charge implications e.g. if Capacity is transferred and the Transferor is subsequently terminated the Transferee may elect to become Registered holder of the capacity
  - May result in Bad Debt for NG.

# Option 3a – Early termination through applying and invoicing new charge for failure to put credit in place

- Pro’s:
  - Does not result in Bad Debt for NG
  - Potentially simple Modification to draft i.e. apply UNC TPD V3.2.10 (a) & (b)
- Cons:
  - Potential Commodity charge implications e.g. if Capacity is transferred and the Transferor is subsequently terminated the Transferee may elect to become Registered holder of the capacity
  - Shippers may be terminated over very small sums of money (£100s rather than £1000s)
  - Can be circumvented prior to 12 month Credit requirement.
  - Some degree of system development may be required to combine with existing invoicing / recall and termination processes

## Option 3b – Early termination through failure to put credit in place

- Pro's:
  - Does not result in Bad Debt for NG
  - Potentially simple Modification to draft i.e. make termination default rule applied after VAR notices not acted upon
  - Existing Recall and Termination processes could be used
- Cons:
  - Potential Commodity charge implications e.g. if Capacity is transferred and the Transferor is subsequently terminated the Transferee may elect to become Registered holder of the capacity
  - Shippers may be terminated prior to the point of use of the capacity before ever receiving an invoice from NG
  - Can be circumvented prior to 12 month Credit requirement.
  - Removes some of the flexibility available to Users in the existing credit arrangements

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# Next Steps

- None of the options outlined are ideal however it would be possible to develop and then implement each of them.
- NG believes that the introduction of PARCAs may help mitigate this issue.
- Our preference is still for an industry identified or supported solution.