

Modification proposal:	Uniform Network Code (UNC) 306: (UNC306) 'Administration of Shipper Credit Security Contact Details'		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	14 January 2010	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

In 2005 Ofgem published its best practice guidelines for gas and electricity network operator credit cover ('the guidelines')³. The aim of the guidelines was to ensure that network operators' credit cover and payment terms were proportionate, allowing network operators to properly manage, rather than wholly avoid, any exposure to financial risk.

Network operators such as the Gas Transporters (GTs) actively manage their risk, for instance through monitoring each User's Value at Risk (VAR⁴) in order to ensure that it remains below their permitted Code Credit Limit (CCL). Where a User's VAR exceeds 80% of its CCL the GT will notify them that they are approaching their CCL. If the User's VAR subsequently exceeds 100% of their CCL, the GT will issue a Notice giving the User just two Business Days to provide additional security.

Failure on the part of the User to respond to such a Notice may result in further escalation as set out in UNC Section V. This includes sanctions and ultimately termination from the UNC in order to limit the GTs and wider shipper community's potential exposure to bad debt. It is therefore imperative that such Notices are responded to promptly.

Review Proposal 252 was raised in April 2009. Its aim was to review the Uniform Network Code (UNC) credit arrangements for transportation charges and consider whether they remained fit for purpose in light of the many credit issues since the publication of the guidelines. Examples of such issues are the collapse of financial institutions such as Lehman Brothers and the wider 'credit crunch'. The Review Group came forward with 14 recommendations, each of which has now been raised as an individual modification proposal.

The modification proposal

One of the issues identified by the GTs participating in the Review Group was a need for a more effective means of maintaining a robust list of appropriate and up-to-date contacts within each shipper's organisation. It is hoped that by doing so the potential of incurring bad debt from those shippers who cannot pay will be minimised, while situations relating to those shippers who can pay will be resolved more quickly without need for further escalation.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=9791-5805.pdf&refer=Licensing/IndCodes/CreditCover>

⁴ The VAR is a dynamic value and is at any point in time the sum of the aggregate amount invoiced to the User (excluding Energy Balancing Charges) which are unpaid, and the average daily amount invoiced to that User (again, excluding Energy Balancing Charges) over the previous calendar month multiplied by 20.

UNC306 would place obligations onto UNC Users to provide the GTs with, and subsequently amend as appropriate, the contact details of that User's representative(s) who can deal with matters relating to Transportation Charges under UNC Section V. This list would be held and maintained by the GTs' Agency (xoserve).

The Proposer considers that UNC306 is likely to further relevant objective (d)⁵ by expediting the collection of debt and mitigating bad debt risk. It also considers that it will further relevant objective (f) by improving the efficient administration of the UNC.

UNC Panel³ recommendation

At the Modification Panel held on 19 August 2010, the eleven Panel Members present determined by Panel majority to recommend implementation of the Proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 8 December 2010. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁶. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

Of the twelve responses to the Joint Office's consultation, nine were in support of its implementation, while two offered qualified support and one offered comments. We agree with respondents and the UNC Panel that UNC306 only impacts upon, and therefore should be assessed against, relevant objectives d) and f).

Relevant Objective (d): the securing of effective competition between relevant shippers and between relevant suppliers;

Although there were no significant comments in support of the proposer's assertion that UNC306 would better facilitate competition, nor were there any contrary arguments. Whilst we agree that a reduction in the risk of bad debt may have a positive impact upon confidence in the market and therefore upon competition, no evidence has been provided to suggest that previous instances of bad debt have been caused or exacerbated by poor communications between GTs and Users. We are therefore unable to conclude the extent to which this proposal would have an impact upon competition, though we are satisfied that any impacts would be positive.

⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

Relevant Objective (f): the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

It is widely recognised that an up-to-date central register of appropriate contact details should improve the efficiency of the administration of the UNC. Indeed the UNC already requires certain details to be provided upon accession to it, for instance emergency contact details as required under Section Q. In effect, UNC306 simply recognises that the person or team responsible for credit arrangements and payments within an organisation may differ from those already listed for other purposes.

Some of the notices issued in accordance with UNC Section V may be the result of an administrative oversight, or late receipt of an earlier cash call notice. To the extent that more efficient communications should prevent unnecessary escalation, we agree that the implementation of UNC306 should promote efficient administration of the UNC.

We agree with the respondent who suggested that such a straightforward administrative exercise should have been possible without recourse to a UNC modification proposal. However, codifying the arrangement will facilitate the register being held and maintained by Xoserve rather than on the current individual basis. It should also reinforce the need for contact details to be actively maintained.

One respondent suggested that this contact list could also be used for other related purposes, such as updating Users in changes to the GTs Regulatory Asset Value (RAV), which may impact upon their own credit position. UNC306 does not seek to prescribe all of the uses that may be made of the credit contact list, though we agree that that it may improve the efficiency of any communications relating to Section V.

One respondent noted that simply holding the information does not guarantee a response, for instance where that contact is on leave, etc. This modification is reliant upon the details provided being robust, for instance being an email account to which several of the User's employees have access, rather than the account of an individual. However, such details are not a feature of the proposal and we consider are best left to the individual Users to administer rather than being prescribed within the UNC.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC306: '*Administration of Shipper Credit Security Contact Details*' be made.

Mark Cox

Associate Partner, industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose.