

Modification Report
RG0252 Proposal 6: Obligation for Users to maintain a Code Credit Limit and at a
reasonable level
Modification Reference Number 0303
Version 1.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification 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 Ofgem’s “Best practice guidelines for gas and electricity network operator credit cover” (BPG) document”.

This specific proposal takes account of any User which having provided the required securitised position to satisfy User admission criteria, subsequently opts to manage its Code Credit Limit (CCL) and security/surety position in a manner which potentially transfers unacceptable risk onto the wider User community.

This new proposal will oblige any User who receives 100% VAR notices in two consecutive calendar months to establish a CCL to the value of the highest 100% VAR notice in the preceding two month period. The new (proposed) UNC text is set out below

For the purposes of the Code:

Having satisfied the User admission criteria, a User shall ensure that its Code Credit Limit is not unreasonable. A Code Credit Limit shall be deemed unreasonable if a Transporter issues more than one 100% VAR notice within 2 consecutive calendar months to a User. Should a Users Code Credit Limit be deemed unreasonable, the Transporter may apply portfolio sanctions under S3.5.3, until such time as the User has a Code Credit Limit no smaller than the largest VAR value quoted in the notices issued in the preceding 2 month period. Once a level of credit has been put in place in accordance with this paragraph V3.1.9, any sanctions applied will be removed within one business day.

For the avoidance of doubt monies paid on account (in isolation of other securitised credit limits) do not form a CCL for the purposes of this proposal.

Suggested Text

V 3.1.9 For the purposes of the Code:

Having satisfied the User admission criteria, a User shall ensure that its Code Credit Limit is not unreasonable. A Code Credit Limit shall be deemed unreasonable if a Transporter issues more than one 100% VAR notice within 2 consecutive calendar months to a User. Should a Users Code Credit Limit be deemed unreasonable, the Transporter may apply portfolio sanctions under

S3.5.3, until such time as the User has a Code Credit Limit no smaller than the largest VAR value quoted in the notices issued in the preceding 2 month period. Once a level of credit has been put in place in accordance with this paragraph V3.1.9, any sanctions applied will be removed within one business day.

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

No User Pays charges applicable.

c) Proposed charge(s) for application of Users Pays charges to Shippers

No User Pays charges applicable to Shippers.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

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

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of

(i) the combined pipe-line system, and/ or

(ii) the pipe-line system of one or more other relevant gas transporters;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (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;*

The Proposer believes that implementation would further the GT Licence 'Code relevant objective' of securing effective competition between relevant shippers by ensuring the appropriate credit limit was afforded to shippers based on their credit limit and proven ability to pay. Similarly DN operators would be operating consistent credit rules for all shippers based on these criteria where credit limits were consistently applied based on historical exposure and non adherence by Users to an acceptable level of credit cover.

Standard Special Condition A11.1 (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... are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (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;

Consistency of approach determining what constitutes an unreasonable CCL provides efficiency in the implementation of the UNC.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) Implications for operation of the System:

There are no implications for operation of the System.

b) Development and capital cost and operating cost implications:

There are no cost implications.

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

Not applicable.

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

Not applicable.

6 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

The contractual risk of each Transporter is reduced by this Modification Proposal, as it ensures a User which breaches its 100% VAR credit position within a 2 month timeframe is required to increase its CCL to a reasonable level to protect the Transporter (and Users) from potential bad debt.

7 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 implications have been identified.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Users may have to amend their administrative and operational processes to ensure a reasonable CCL is in place to avoid any repeated VAR notices being issued by the Transporter.

Development and capital cost and operating cost implications

To be advised by Users.

Consequence for the level of contractual risk of Users

The aggregate contractual risk for all Users will reduce, as this Proposal requires any User who is repeatedly issued with a VAR notice due to the absence of an adequate credit limit, to securitise a reasonable credit limit, (or risk having its portfolio growth restricted through sanctions). This approach therefore reduces the overall industry bad debt risk should a User's bad debt ultimately be allocated by a Transporter(s) through Transportation charges.

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

No implications have been identified.

10 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

No consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- ensures all Users have adequate credit limit commensurate with their exposure to Transportation charges.
- reduces likelihood of any defaulting User having its bad debt allocated to other Users via Transportation charges.
- prevents a User taking on new customers (who may have to provide security) when the User's future may be uncertain.

Disadvantages

No disadvantages have been identified.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Organisation	Response
British Gas Trading	Supports
E.ON UK	Supports
First:utility	Supports
National Grid Distribution	Supports
National Grid NTS	Supports
Northern Gas Networks	Supports
RWE npower	Not in Support
Scotia Gas Networks	Supports
ScottishPower	Supports
SSE	Supports
Wales & West Utilities	Supports

In summary, of the 11 responses received, 10 supported implementation and 1 opposed implementation of the Proposal.

RWE npower considered that Transporters have the ability not to deem Guarantees as effective until they have been signed by their Board, this can significantly increase the time to which a Guarantee can be deemed to become effective, in some cases several weeks. Thus under the proposed arrangements this could result in Users having portfolio sanctions applied to them under TPD Section S3.5.3 despite the fact that they have taken steps to increase their Code Credit Limit. RWE npower therefore believes that given the current process the above Proposal would disadvantage all Users.

RWE npower would like to use this opportunity to raise that given that Deeds of Amendment to Guarantees are not recognised by all Transporters, the above Proposal would provide further disadvantage to some Users. Deeds of Amendments are significantly quicker to put in place compared to a new Guarantee where wording would need to be agreed by the User and Transporter.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 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

Implementation is not 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

It is suggested that this Proposal be implemented on 01 December 2010. Should this date not be achievable, then implementation could take place immediately following an Authority direction.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code

Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters