

Draft Modification Report
In the Event of User Insolvency all Network Code Charges shall become Immediately Payable
Modification Reference Number 0612

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

Where a User becomes insolvent, that is, a receiver, administrator, trustee-in-bankruptcy or other insolvency practitioner, either foreign or domestic is appointed, but a termination has not been effected;

- Transco would have the right to immediately submit invoices for all services supplied up to and including the effective date of insolvency.
- Transco would have the right to invoice for all services consumed post the date of insolvency at intervals determined at its discretion to be appropriate.
- All invoices, irrespective of when issued, would deemed to be immediately due for payment.
- Additionally, where appropriate, Transco would have the right to estimate invoices, (typically, but not exclusively, relating to energy balancing or reconciliation). Where such an invoice is issued, following any close-out period or actual data becoming available, Transco would reconcile the invoice and issue an adjustment.
- These provisions would apply to both Energy and Transportation charges.

2. Transco's Opinion

Transco's opinion is that this modification proposal should be implemented. This opinion has been formed using the following rationale.

Section V4.3 of the Network Code contains a provision that allows Transco to terminate a User at any time following a User becoming insolvent. However, there may be occasions where an immediate termination may not be the best course of action for the industry as a whole and, as such, an insolvent User could continue to be party to the Network Code. Implementation of the proposal would compliment the existing provision relating to insolvency, and provide Transco with a means of verifying that assurances given by an Administrator on behalf of the insolvent User would be delivered in practice.

Without implementation, the existing provisions relating to invoice schedules and payment periods, detailed in Section S of the Network Code, would continue to apply to the User. Transco believes that where a User continues to trade whilst insolvent, it is appropriate for it to reduce its financial

obligations promptly in order to protect both the industry and Transco from bad debt. Implementation would revise the invoicing and scheduling provisions that would operate in these exceptional circumstances so that Transco could, at its discretion, accelerate the issue of invoices and stipulate immediate settlement terms.

By allowing Transco to accelerate invoice submission and payment due dates for services supplied up to the point of insolvency, the full value of a User's security could be realised, and where invoices are raised for services consumed after insolvency, the option to raise invoices independently of the existing invoices schedules would ensure that securities could be drawn upon promptly and, where no security is held, levels of debt minimised. This would allow any default to be dealt with immediately and reduce the risk of bad debt. By issuing invoices which carry immediate payment terms, any instruments of security lodged by the User that expires shortly after the point of insolvency would be fully utilised. All of these remedies would enhance the prospects of recovery, reduce the potential for unsecured credit exposures and the reduce the prospects of having to levy neutrality adjustments caused by bad debt on remaining Users.

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

By ensuring that all services consumed by the User prior to insolvency, or required while in administration, are invoiced in a manner that induces prompt settlement, probability of recovery increases. Each Energy Balancing and Capacity Neutrality invoice settled reduces the risk of the industry being exposed to bad debt smears. Implementation of the remedies described above would reduce risk for all parties concerned and, therefore, could be expected to facilitate a more secure and competitive environment in which shippers can operate.

4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:

There would be no implication for the operation of the system.

b) development and capital cost and operating cost implications:

Transco believes that implementation would not result in any additional costs being incurred.

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

No special cost recovery arrangements are envisaged.

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

Transco does not believe that this proposal would have any effect on price regulation.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Implementation would reduce Transco's level of contractual risk since a revision to the invoice settlement cycle would increase the probability of Transco being able to call upon an instrument of security, (which may only have a limited term prior to expiry), in the event of payment default. Consequently, this would reduce the likelihood of Transco incurring bad debts.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Implementation would not result in any significant systems development for Transco.

7. The implications of implementing the Modification Proposal for Users

This proposal would only have direct implications for a User should it become insolvent, in which case it would be bound by the revised invoicing and settlement provisions. Indirectly, all other Users would benefit from reduced levels of risk since a shorter invoice settlement cycle reduces the probability of energy balancing and capacity neutrality bad debt and, therefore, the need to issue neutrality adjustments.

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

It is not anticipated that this proposal would have any effect on any non-Network Code Party.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is not aware of any impact on legislative and regulatory obligations.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Provides increased opportunity for Transco to realise the full value of any instrument of security in place.
- Reduces the amount of debt that a User could accrue while trading insolvent.
- Acts as an early warning system by highlighting any payment problems that could be encountered following insolvency.

Disadvantage(s)

- Transco can not identify any disadvantages of being able to draw immediately on security where a User becomes insolvent and owes money.
- Where Users are insolvent and continue to trade: issuing invoices with immediate payment terms could cause additional cash flow problems for a User already in financial difficulties. The reduced settlement period could result on the security being called on more frequently, and to a greater extent, than if the existing invoicing and settlement schedules applied.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations are now invited.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

This modification is not proposed as a result of having to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

This modification is not proposed as a result of changes to the methodology established under Standard Condition 4(5).

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco would be required to modify its procedures for monitoring the debt positions of Users.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

This proposal could be implemented very soon after direction by Ofgem by modifying existing procedures. The UK-Link system does not require modification and, consequently, Transco expects no implementation delays due to IS reasons. Transco would use the existing invoicing systems to derive estimated invoices where it decides that it is appropriate to issue invoices prior to the expiry of any time bound security documentation.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this proposal is implemented.

17. Text

SECTION S: Invoicing and Payment

Amend paragraph 1.4.3 as follows:

"Subject to paragraph 1.7, Transco will not change..."

Amend the heading to paragraph 1.7 as follows:

"Termination and Insolvency"

Insert a new paragraph 1.7.3 as follows:

"Notwithstanding paragraph 1.4, Transco may, at any time on or following the occurrence of any of the events set out in paragraph V4.3.1 (e) in relation to any User, submit to that User any Invoice Document in respect of any Billing Period or part of a Billing Period ending at or before the time at which Transco submits such Invoice Document."

Insert a new paragraph 1.7.4 as follows:

"In relation to a User, on the occurrence of any of the events set out in paragraph V 4.3.1(e), all amounts payable to Transco (whether the Invoice Document in which such amounts are shown was submitted before or after the date of the occurrence of any of the events set out in paragraph V4.3.1 (e)) shall be immediately payable notwithstanding paragraph 3.1."

Amend paragraph 3.1.1 as follows:

"Subject to paragraphs 1.7.2, 1.7.4 and 4.2.2, the Invoice Amounts under each Invoice Document shall be paid..."

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Debbie Dowling
Finance Manager

Support Services

Date: