

**Draft Modification Report**  
**Revision to Credit Cover required in respect of participation in Auctions and**  
**Allocations of System Entry Capacity**  
**Modification Reference Number 0628**  
Version 4.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

**1. The Modification Proposal**

Network Code Modification Proposal 0500, “Long Term Capacity Allocation”, put in place revised arrangements where Users acquire rights to System Entry Capacity (SEC). Although this primarily introduced the concept of Long Term System Entry Capacity (LTSEC), it also revised the arrangements for Monthly and Daily System Entry (MSEC, DSEC and DISEC).

The Modification Proposal also amended the level of credit cover, which Users would be required to provide in order to participate in these processes.

Section B2.2.15 defines the basis for assessing a Users exposure against its Code Credit Limit as follows:-

"Where at 17:00 hours on the first Business Day of a calendar month in relation to a User the sum of:

- a) the aggregate System Entry Charges payable by the User in respect of its Registered Quarterly Firm System Entry Capacity for each Day in the twelve (12) calendar months commencing from the first Day of the following calendar month ("relevant months");

and

- b) the User's Relevant Code Indebtedness at such time,  
  
exceeds 85% of its Code Credit Limit Transco shall not later than five (5) Business Days after the first Business Day of the calendar month inform the User."

In accordance with Section B2.2.16 following the notice period defined in B2.2.15 the User is required to provide sufficient surety or security within (10) Business Days of the notice.

Network Code Modification Proposal 0628 seeks to remove the sum associated with B2.2.15 a) from the determination of the Code Credit requirements.

**2. Transco's Opinion**

Transco does not support the implementation of this Proposal.

Modification Proposal 0500 implemented the present 12-month credit arrangements to strike an appropriate balance between credit arrangements that create prohibitive cost for some who may otherwise wish to take part in Long Term System Entry Capacity auctions, and weak arrangements that might enable any costs of failure to be passed on to other Users. Transco believes that a 12-month capacity credit requirement is the maximum term of credit guarantee that can be obtained without recourse to bespoke and therefore expensive products. Had longer term credit provision been readily available it might have been appropriate to further extend the duration of credit provision. The release of a long term firm product should not be treated as an option to pay, rather it should necessitate a firm commitment on the part of Users. This approach is undermined if short term credit provisions become the only requirement when obtaining long term firm capacity.

Transco considers it to be inappropriate that a reduction in the level of credit cover should be allowed to increase the potential for bad debt to occur with a consequent increase in the probability of Transco and Users being exposed to the costs of a User defaulting on financial commitments associated with long term capacity.

Users should be aware that Ofgem is presently reviewing the arrangements for gas and electricity network operator credit cover and Transco feels that the implementation of this Proposal should not preclude the outcome of the review.

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

The proposer argued that the Proposal serves to facilitate the Transporter's relevant objectives by facilitating competition in the acquisition of System Entry Capacity.

In Transco's opinion the proposed modification would not better facilitate the economic and efficient operation of its pipeline system because a reduction in credit requirements could lead to less certainty regarding the validity of any investment signals that may arise from a long term auction

### **4. The implications for Transco of implementing the Modification Proposal , including**

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

There is unlikely to be a change in physical operation of the System as a result of implementation of this Proposal.

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

There are no such implications.

#### **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:**

Any increased costs would be borne by Users of the System.

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

There are no such consequences.

**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**

There are no such consequences.

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

There are no such implications

**7. The implications of implementing the Modification Proposal for Users**

A reduction in the level of credit cover would lead to increased risk of User default and increased financial exposure for other Users and Transco.

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

There are no such implications.

**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 believes that the modification proposal is not consistent with its licence arrangements to operate its pipeline system in an economic, efficient and coordinated manner.

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

**Advantages:**

Users may be required to provide less credit cover

**Disadvantages:**

Increased potential for bad debt to occur with a consequent increase in the probability of Transco and Users being exposed to the costs of a User defaulting on financial commitments

Implementation may conflict with Ofgem's review of credit cover arrangements

- 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 sought**

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

Implementation is not required for this purpose.

- 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**

Implementation is not required having regard to any such proposed change.

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

There would not be a significant programme of works.

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

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|-------------------------------------|----------------|
| Draft Modification Report issued    | 20nd May 2003  |
| Close-out for representation        | 11th June 2003 |
| Final Modification Report issued by | 2nd July 2003  |

- 16. Recommendation concerning the implementation of the Modification Proposal**

Transco does not recommend implementation of this Proposal.

- 17. Text**

***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:

**Nigel Sisman**  
**Development Manager - Gas Balancing**  
**NT & T**

Date: