

Julian Majdanski  
Joint Office of Gas Transporters  
Ground Floor Red  
51 Homer Road  
Solihull  
West Midlands  
B91 3QJ

Alex Thomason  
Gas Codes Development

Alex.thomason@uk.ngrid.com  
Direct tel 01926 656379  
Direct fax 01926 656605  
Mob 07770 982225

[www.nationalgrid.com](http://www.nationalgrid.com)

2 November 2006  
Our Ref: AHT/Mod 0113 response

Dear Julian

**Representation in response to Modification Proposal 0113: “Availability of Unsecured Credit Based on User Payment Record or Independent Assessment”**

Thank you for the opportunity to respond to this Draft Modification Report (DMR).

National Grid NTS offers qualified support for this proposal and offers the following comments, in line with the section headings in the DMR.

**2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

National Grid NTS agrees that implementation of consistent credit processes should help ensure that there is no inappropriate discrimination and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between relevant shippers.

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

National Grid NTS does not foresee any implications for security of supply or operation of the Total System. National Grid NTS believes that consistent credit arrangements could facilitate non-fragmentation of the industry.

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including**  
**a) implications for operation of the System:**

National Grid NTS does not foresee any implications for operation of the System.

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

National Grid NTS agrees with the Proposer that implementation of this Modification Proposal would require expenditure on changes to operational processes and procedures. The Modification Proposal would require implementation of new processes, including those to cover the following aspects:

- establishing the panel of agencies to provide independent assessments
- monitoring the level of requests for independent assessments
- annual reassessments
- processing the fees of assessments and charging back the appropriate percentage of those fees to the User that requested the assessment
- monitoring the level of requests for independent assessments that do not achieve the minimum required credit scoring of 1
- monitoring payment records to flag failure to pay invoices by the due date
- reduction of a User's Unsecured Credit Limit to zero on failure to pay an invoice by the due date
- notification process to inform Users when the Unsecured Credit Limit has been reduced to zero

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

National Grid NTS considers that any such costs would fall into the category of TO operating costs and would therefore treat these costs in the same way as our existing TO operating costs.

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

National Grid NTS notes and takes comfort from the Proposer's reiteration of the assurances made in Ofgem's Best Practice Guidelines<sup>1</sup> regarding the potential for bad debt recovery, resulting from the implementation of the Guidelines.

**5. 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**

**Independent Assessment**

National Grid NTS agrees with the Proposer that Transporters' contractual risk would increase as more Users would be likely to be able to obtain unsecured credit from the Transporters following implementation of this Modification Proposal. National Grid NTS also agrees with the Proposer's reasoning that it is possible that Users who do obtain unsecured credit through an independent assessment would be those with a higher degree of risk with regard to individual User failure.

**Payment History**

Again, National Grid NTS agrees with the Proposer that Transporters' contractual risk would increase following implementation of this Modification Proposal as more Users would be likely to be

---

<sup>1</sup> "Best practice guidelines for gas and electricity network operator credit cover, conclusions document, February 2005, 58/05"

able to obtain unsecured credit from the Transporter. National Grid NTS also believes that the reasoning provided by the Proposer with regard to the possibility of those Users with a higher degree of risk being able to obtain unsecured credit is sound.

In summary, National Grid NTS believes that Transporters will face a heightened level of contractual risk of bad debt arising if this Modification Proposal is implemented. However, National Grid NTS takes comfort from the reassurances provided by Ofgem in its Best Practice Guidelines document which states:

*“4.3 Companies demonstrating compliance with or able to satisfactorily to explain departure from the guidelines will be able to recover all bad debt losses arising in respect of charges not due for payment at the date of the relevant counterparty’s insolvency, net of any dividends or recoveries;*

*4.4 Such companies will also be able to recover a proportion of bad debt losses arising in respect of charges overdue for payment at the date of the relevant counterparty’s insolvency, net of any dividends or recoveries (which would be offset proportionately against all outstanding balances), depending on the age of the outstanding receivable. Ofgem has noted comments from a number of respondents regarding the opportunity to recover 100 per cent of bad debt whilst employing reasonable procedures. Ofgem has concluded that the amount recoverable would be equal to the value of outstanding balances subject to bona fide dispute (plus or minus the value of any reconciliation adjustments subsequently made) together with a proportion of the value of all undisputed balances (up to a maximum of 100 per cent) that varies inversely with the age of the balance, as set out below. The overall recoverable amount would be reduced for any other recoveries.*

**6. 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**

National Grid NTS notes that no UK Link system implications have been identified.

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

National Grid NTS agrees with the Proposer that Users who choose to accrue unsecured credit on the basis of their payment history should see a reduction in their operational costs for credit provision as a result. However, as the Proposer suggests, the User may incur costs if it implements new processes to ensure that it “protects” its payment history.

Similarly, National Grid NTS agrees that those Users who choose to opt for an independent assessment to obtain unsecured credit may benefit from this method being more economic than any means they currently use to obtain credit.

Where a Transporter successfully seeks to pass through bad debt, National Grid agrees that a User may be impacted by a subsequent increase in Transportation Charges.

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

National Grid NTS recognises the possibility that a User may reflect any operational cost efficiencies it achieves in obtaining unsecured credit in the level of charges it levies to its suppliers, which could possibly be reflected in the level of charges a Supplier levies to its customers.

National Grid NTS agrees with the Proposer that Suppliers and subsequently Consumers could be impacted by an increase in costs as a result of bad debt pass through, dependent upon the commercial arrangements in place between the respective parties with regard to Transportation Charges.

#### **9. 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**

National Grid agrees with the Proposer's interpretation of Ofgem's Best Practice Guidelines.

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

##### **Advantages**

National Grid NTS agrees with the Proposer's stated advantages that the Modification represents an advantage to Users in terms of offering an alternative and economic means of obtaining unsecured credit from Transporters. Equally, alignment with Ofgem's Best Practice Guidelines could assist with the prevention of industry fragmentation.

##### **Disadvantages**

As stated in point 5 above, National Grid NTS shares the Proposer's concern that the Modification could increase the value of credit which is unsecured and, by implication, the increased risk of bad debt occurring. Where National Grid NTS is exposed to such bad debt having demonstrated compliance with processes implemented in line with Ofgem's proposed Best Practice Guidelines then we would seek to recover such debt through an increase in Transportation Charges in subsequent years.

The ability for a Transporter to pass through bad debt represents a disadvantage to Users who could face an increase in their Transportation Charges in subsequent years.

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

As detailed in point 4 above, National Grid NTS understands that this Modification Proposal would require changes to operational processes and procedures in the event that it were implemented.

With regard to the options for implementation, National Grid NTS accepts that the second option of evaluating a User's previous payment history at implementation of the Modification Proposal to assess each User's entitlement would align the credit arrangements for gas network operators with those already implemented for electricity network operators.

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

Given the potential impact outlined in section 14, National Grid NTS agrees with the Proposer that this proposal should be granted an implementation timescale of at least 3 months from the Authority's direction being given.

**19. Legal Text**

National Grid NTS notes that the reference to Moody's Investment Services in the proposed new paragraph 3.1.7 differs from the name used in the existing Transportation Principal Document Section V of the UNC, which refers to "Moody's Investors Service" and would suggest that if the two terms refer to the same party then the two terms should be aligned.

Yours sincerely

**Alex Thomason**  
**Senior Commercial Analyst**