

Modification Report
Discontinuance of Code Credit Rules
Modification Reference Number 0191V
Version 3.0

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

In respect of transportation credit arrangements, Ofgem published a number of recommendations in its conclusions document “Best practice guidelines for gas and electricity network operator credit cover” 58/05 in February 2005. (“The Guidelines”)

Over the past 2 years a number of Modifications have been directed for implementation by Ofgem which have introduced into UNC the recommendations contained in The Guidelines.

Prior to these Modifications the rules governing the setting and maintenance of Transportation Code Credit Limits and security arrangements for same were published within the Transporter’s Code Credit Rules as per UNC Transportation Principal Document (TPD) Section V 3.1.2. These are currently published by each Transporter as UNC related documents on the Joint Office website. (www.gasgovernance.com).

The various Modifications have over time removed all but three references to the Code Credit Rules and it is the Proposer’s view that these rules are now obsolete and no longer needed.

This Proposal therefore seeks to remove from UNC the three remaining references to the Code Credit Rules which the Proposer believes will have no material impact on the administration of the UNC in respect of transportation credit and security. For avoidance of doubt, this Proposal is in only in respect of Code Credit Rules and will have no impact on Energy Balancing Credit Rules as defined in UNC TPD Section X 2.1.

The discontinuance of the Code Credit Rules will ensure that there is no conflict or divergence from UNC within the various documents published by the individual Transporters. If the Code Credit Rules are continued they will merely become a copy of the relevant sections of UNC and potentially add risk of misinterpretation with no added value.

Following implementation of Modification Proposals 0144AV & 0145 on 1 February 2008, the remaining three references to Code Credit Rules within UNC TPD will be as follows:

- 1) UNC TPD Section V 3.12
- 2) UNC TPD Section V 3.2.8
- 3) UNC TPD Section G 2.1.10(b)

This Proposal seeks to remove Section V 3.1.2 and amend Section V 3.2.8 and Section G 2.1.10(b) to replace the reference to Code Credit Rules with ‘Code’ and to correct the reference to paragraph 3.2.5 to 3.2.4(b).

Transporters are able to publish contact details for use by Shippers to discuss any credit related issues via their own websites. As a result no communication channels, between the Transporters and Users, will be closed as a result of the implementation of this Modification.

Suggested Text

TPD SECTION V: GENERAL

Remove paragraph 3.1.2 (as implemented on 1 February 2008)

~~The "Code Credit Rules" are the rules from time to time established and revised by the Transporter and issued to Users setting out (inter alia) procedures by which a User may discuss its Code Credit Limit with the Transporter.~~

Amend paragraph 3.2.8

The Transporter will not be obliged to agree to any request of the User under paragraph ~~3.2.5~~ 3.2.4(b) unless the User agrees to reimburse to the Transporter the reasonable costs and fees payable by the Transporter to any third party in accordance with the Code ~~Credit Rules~~ in connection with such request.

TPD SECTION G: SUPPLY POINTS

Amend paragraph 2.1.10(b)

In the event that following the review referred to in paragraph 2.1.10 the Transporter notifies the Last Resort User that additional security is required, then the Last Resort User shall be obliged to provide the requisite security in accordance with the Code ~~Credit Rules~~ or Energy Balancing Credit Rules (as appropriate) in favour of the Transporter (or National Grid NTS) as soon as reasonably practicable thereafter but in any event no later than 14 Days of the day of notification and upon receipt of that security the Transporter shall revise the Last Resort User's Code Credit Limit (and/or in the case of National Grid NTS) Secured Credit Limit (as appropriate) as soon as reasonably practicable thereafter but in any event no later than 14 Days after the date of notification to take effect from the date of that revision.

2 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 subparagraph (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 subparagraphs (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 subparagraphs (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;

Implementation of consistent credit processes which move towards recognised best practice will help ensure that there is no inappropriate discrimination and no inappropriate barrier to entry. This Proposal facilitates the securing of effective competition between relevant shippers by removing the potential for divergence of interpretation of UNC within Code Credit Rules.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (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 subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

By removing the potential for divergence of interpretation of UNC within Code Credit Rules the implementation of this Proposal will promote greater efficiency in the administration of the UNC.

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

No such implications on security of supply or operation of the Total System have been identified

4 The implications for Transporters and each Transporter of implementing

the Modification Proposal, including:

a) Implications for operation of the System:

No implications for operation of the system have been identified

b) Development and capital cost and operating cost implications:

There are no development and capital cost or operating cost implications associated with implementation of this Proposal

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

No cost recovery mechanism is required

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

No such consequences has been identified

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

No such consequences has been identified

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

There are no development, or other, implications for Transporter or Users systems

7 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)

No such implications have been identified

Development and capital cost and operating cost implications

No such costs have been identified

Consequence for the level of contractual risk of Users

No such consequences have been identified

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

No such implications have been identified for any other relevant persons

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

No such consequences have been identified

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

Advantages

- Removes the potential for divergence of interpretation of UNC within Code Credit Rules
- Removes the administrative cost of maintenance and publication of separate documentation
- Provides single source to Users for guidance and information relating to transportation credit arrangements
- Removes potential for individual Distribution Networks to operate transportation credit arrangements in differing, and potentially conflicting, ways

Disadvantages

National Grid Transmission and Scotia Gas Networks note that the Code Credit Rules often provide additional information and guidance which assists Users in understanding the Transportation credit arrangements. This can help reduce the number of queries which need to be referred by Users to Transporters.

If this Modification Proposal is implemented National Grid Transmission intend to produce a guide and Scotia Gas Networks will give further consideration to what additional support may be required.

National Grid Distribution is also considering the establishment of a 'User Guide' type document for its customers that would aim to provide an interpretation of the UNC.

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

Representations were received from the following:

Organisation	0191	0191V
British Gas Trading		Supports

E.ON UK	Supports	Supports
National Grid Distribution	Supports	
National Grid Transmission	Supports	
Northern Gas Networks	Supports	
RWE Npower	Supports	
Scotia Gas Networks	Supports	Supports
Scottish and Southern Energy	Supports	
Scottish Power		Supports
Wales & West Utilities		Supports

Of the 10 responses received, all supported implementation.

National Grid Transmission and Scotia Gas Networks noted that a variation request had been submitted, and believed that this represented an immaterial change.

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

Implementation is not required in order to facilitate compliance with any notice issued under Standard Condition A11 (14)

13 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.

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

No programme of works has been identified.

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

This Modification Proposal can be implemented immediately (following the necessary Ofgem direction)

16 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.

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

At the Modification Panel meeting held on 21 February 2008, of the 9 Voting Members present, capable of casting 9 votes, 9 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

18 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.

19 Text

TRANSPORTATION PRINCIPAL DOCUMENT - SECTION V: GENERAL

Remove paragraph 3.1.2

~~The "Code Credit Rules" are the rules from time to time established and revised by the Transporter and issued to Users setting out (inter alia) procedures by which a User may discuss its Code Credit Limit with the Transporter.~~

Remove paragraph 3.1.3

~~The Code Credit Rules do not form a part of the Code and (but without prejudice to the further provisions of this paragraph or to anything done pursuant to the Code Credit Rules) nothing in the Code shall make compliance with such rules an obligation of the Transporter or Users.~~

Remove paragraph 3.1.4

~~Nothing in the Code or the Code Credit Rules shall constitute any duty of care or other obligation on the part of the Transporter (whether to or for the benefit of the User in question or Users in general) in relation to the implementation of the Code Credit Rules or the provisions of this paragraph 3.~~

Renumber and amend references within, and relating to paragraph 3.1

Amend paragraph 3.2.8

The Transporter will not be obliged to agree to any request of the User under paragraph ~~3.2.5~~ 3.2.4(b) unless the User agrees to reimburse to the Transporter the reasonable costs and fees payable by the Transporter to any third party in accordance with the Code ~~Credit Rules~~ in connection with such request.

TRANSPORTATION PRINCIPAL DOCUMENT - SECTION G: SUPPLY
POINTS

Amend paragraph 2.1.10(b)

In the event that following the review referred to in paragraph 2.1.10 the Transporter notifies the Last Resort User that additional security is required, then the Last Resort User shall be obliged to provide the requisite security in accordance with the Code ~~Credit Rules~~ or Energy Balancing Credit Rules (as appropriate) in favour of the Transporter (or National Grid NTS) as soon as reasonably practicable thereafter but in any event no later than 14 Days of the day of notification and upon receipt of that security the Transporter shall revise

the Last Resort User's Code Credit Limit (and/or in the case of National Grid NTS) Secured Credit Limit (as appropriate) as soon as reasonably practicable thereafter but in any event no later than 14 Days after the date of notification to take effect from the date of that revision.

TRANSITION DOCUMENT - PART IIB: RELEVANT TRANSPORTERS

Remove paragraph 12.1

~~For each Relevant Transporter, as at the First Day the Code Credit Rules and (in relation to each User) the Code Credit Limit are the rules and limit established by National Grid (in anticipation of the UNC Implementation Date) separately for each Relevant Transporter on or before the Last Day, and a User may (in anticipation of the UNC Implementation Date) have provided surety or security (taking effect from the First Day) separately for such Relevant Transporter.~~

Renumber 12.2 as 12.1

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters