

## Stage 01: Proposal

# 0371:

## Unsecured Credit Limit allocated through payment history – late payments

What stage is this document in the process?

- 01 Proposal
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This Modification Proposal seeks to amend the criteria for credit provided by payment history in UNC Transportation Principle Document (TPD) Section V paragraphs 3.1.5 and 3.1.6 to reflect the recommendations of Review Group\* 0252 'Review of Network Operator Credit Arrangements' (RG0252).

It is proposed that the UNC adopt a revised approach to administration errors that may allow the credit provision to be maintained where a late payment has occurred.



The Proposer recommends that this Proposal follows the Urgent procedures and is implemented as soon as possible



High Impact: Small Shippers



Medium Impact:



Low Impact:

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## About this document:

This document is a proposal that is seeking urgent status allied to a shortened assessment period in light of the deferred implementation of UNC Modification 0305.

A shortened assessment period is sought because a change in credit rules is due to be introduced on 1 July following the deferred implementation of UNC Modification 0305. This is likely to have a significant adverse impact on a number of smaller shippers. A decision on implementation prior to 1 July is therefore sought to rectify the introduction of what the proposer believes is an unintended consequence of the recent modifications to the credit arrangements.



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### 3 Any questions?

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# 1 Summary

## Is this a Self Governance Modification

It is not proposed that this Proposal is treated as a Self-Governance Modification.

## Why Change?

### Background

Review Group 0252 was established in July 2009 to undertake a review of the existing credit arrangements within UNC TPD Section V taking into account other credit related issues that have occurred since the publication of the Ofgem Best Practice Guidelines (BPG) document.

One of the topics discussed by the Review Group was Unsecured Credit Limit\* risk and in particular the use of independent assessments and payment history in determining the Unsecured Credit Limit to be provided to small Users\*.

The current UNC payment history requirements are detailed in TPD Sections V paragraphs 3.1.5 and 3.1.6, briefly these arrangements allow for payment history to be built up over a 5 year period, however when a payment of greater than £250 is late then any accumulated history would be reset to zero.

### Solution

With the above discussions in mind the Review Group recommended that payment history be retained as a credit tool but that its use be limited to new entrants only with a time limit of a maximum of 2 years from the point they accede to the UNC. After such time the User would need to choose an alternative credit tool and, given that the Review Group have also proposed some enhancements to the independent assessment, this mechanism may be the tool of choice. The Review Group believed this approach would provide responsible credit and limit the exposure to the community of a credit default.

The Review Group also compared the gas payment history processes to the electricity regime (Connection Use of System Code (CUSC)) and it was proposed that the UNC adopt a similar approach to late payments to allow for administration errors. In the current gas regime, if a payment of greater than £250 is late then the accumulated payment history would be reset to zero. In the CUSC a softer landing is applied, where if a payment is received up to and including 2 days after the payment due date then the credit limit would not revert to zero in the first instance.

### Impacts & Costs

There would be a requirement to make minor changes to the Transporters credit monitoring arrangements. No other impact is envisaged.

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## Implementation

It is proposed that urgent procedures be followed based on the following timetable:

- 09 March Modification Panel considers request for urgency
- 10 March Ofgem decision on urgency
- 11 March Modification issued for consultation
- 17 March Final day for representations
- 24 March Modification Panel recommendation regarding implementation
- 31 March Ofgem decision to accept or reject
- 01 April Implementation

## The Case for Change

A change in credit rules is due to be introduced on 1 July following the deferred implementation of UNC Modification 0305. This is likely to have a significant adverse impact on a number of smaller shippers.

## Recommendations

It is recommended that Ofgem grant urgency for this modification, and that it follows the timetable set out above.

## 2 Why Change?

This proposal has already been approved for implementation as it formed part of MOD 0305 which was subsequently postponed until 1<sup>st</sup> July 2011. We are proposing that this particular change be implemented sooner.

We believe that the existing late payment penalty has a disproportionate effect on smaller suppliers as they are more likely to lodge cash as credit cover due to the fact that they do not have easy access to other forms of collateral such as Letters of Credit or Parent Company Guarantees. Where payment is not made on the due date, but is within 2 days of that date on any one occasion in a 12 month rolling period, we believe that any Unsecured Credit Limit should not be reduced to zero. This is an extreme penalty for an event which may have been out of the supplier's direct control.

The proposed change rectifies a disparity which has already been recognised by the electricity industry and is covered by a similar provision in the CUSC.



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## 3 Solution

It is proposed to amend TPD Sections V3.1.5 and V3.1.6 to allow for User administration errors referred to earlier in this Proposal:

- Amend 3.1.6 to allow for a payment that is received up to and including 2 days after the payment due date. The Unsecured Credit Limit would not increase for the following month and interest would be charged on the late payment.
- However, the Unsecured Credit Limit would not be reset to zero in the first instance but if payment was late more than once within a rolling 12 calendar month period then the credit limit would reset to zero. Interest would also be charged on the second late payment.

This proposal is further illustrated by the following examples:

- Case 1 - User pays on time: User's Unsecured Credit Limit increases (providing all other invoices are paid on the due date in that month) as with the current UNC by 0.033%.
- Case 2 - User misses payment due date on an invoice but pays up to (and including) 2 days late: User's Unsecured Credit level remains unchanged and does not increase and interest is charged on the late payment.
- Case 3 – User pays an invoice more than 2 days late: User's Unsecured Credit allowance reverts to zero and interest is charged on the late payment.
- Case 4 – User pays an invoice up to (and including) 2 days late on 2 separate occasions within a 12 calendar month rolling period: the Unsecured Credit Limit reverts to zero after the second instance and interest is charged on the late payments.

## 4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Objective d.**

Proposer's view of the benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	See below
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code	None

The Proposal introduces some allowance for administration errors by allowing payment to be late by up to 2 days on one occasion in any 12 month rolling period. This encourages new entrants to the market as smaller suppliers, who are more likely to lodge cash as credit cover, are not penalised in a disproportionate fashion for an isolated administrative error leading to a failure to pay on the due date. The electricity industry has already recognised this disparity and has included a similar provision in the CUSC.

## 5 Impacts and Costs



### Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

### 0565 Transco Proposal for Revision of Network Code Standards of Service

at the following location:

<http://www.gasgovernance.com/networkcodearchive/551-575/>

### Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
This Modification Proposal does not affect xoserve systems or procedures and therefore it is not affected by User Pays governance arrangements.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
Not applicable	
Proposed charge(s) for application of Users Pays charges to Shippers	
Not applicable	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve	
Not applicable	

### Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li></li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li></li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li></li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li></li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact

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Impact on Transporters	
System operation	<ul style="list-style-type: none"> <li>None</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>There would be a requirement to make minor changes to the Transporters' credit monitoring arrangements.</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>None</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li></li> </ul>
Standards of service	<ul style="list-style-type: none"> <li></li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>None</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>None</li> </ul>
General administration	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code	
Code section	Potential impact
TPD Section V	

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None

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Impact on UNC Related Documents and Other Referenced Documents	
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	
Uniform Network Code Standards of Service (Various)	

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	Not applicable
Gas Transporter Licence	Not applicable

Other Impacts	
Item impacted	Potential impact
Security of Supply	Not applicable
Operation of the Total System	Not applicable
Industry fragmentation	
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	

## 6 Implementation

We would request that, if the Authority grants urgent status to this Modification, a decision as to whether or not to implement be reached as soon as possible and that a shortened period for assessment be granted so that a decision on implementation can be provided prior to 1 July 2011.

A timetable to facilitate this is:

- 09 March Modification Panel considers request for urgency
- 10 March Ofgem decision on urgency
- 11 March Modification issued for consultation
- 17 March Final day for representations
- 24 March Modification Panel recommendation regarding implementation
- 31 March Ofgem decision to accept or reject
- 01 April Implementation

## 7 The Case for Change

In addition to that identified above, the Proposer has identified the following:

### Advantages

- Introduces a CUSC style 'soft landing' to allow for a User administration error.
- Continues to facilitate new entrants.

### Disadvantages

- None envisaged.

## 8 Recommendation

It is recommended that the Authority grant Urgent status for this Modification.



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