

Representation

Draft Modification Report

0521 - Revision of User Admission Criteria to include Transporter verification of its ability to transact with the Applicant User

Consultation close out date: 16 January 2015

Respond to: enquiries@gasgovernance.co.uk

Organisation: National Grid NTS

Representative: Phil Lucas

Date of Representation: 15th January 2015

Do you support or oppose implementation?

Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

As proposer, National Grid NTS fully supports implementation of this Modification Proposal. The prevailing User Admission criteria in the UNC do not require confirmation of the Applicant User's capability to transact with the Transporter's Account Bank. In the event that a User enters the market under the prevailing rules and is unable to so transact, there is a risk that any consequential bad debt costs may be incurred by other Users or Transporters under the relevant debt recovery rules. We therefore believe that the proposed additional User Admission criteria is a reasonable and proportionate 'check and balance' prior to enabling an Applicant User to become a User under the UNC.

Implementation of the Proposal would require National Grid NTS to approach at least one other reputable UK bank to transact with the Applicant User and to allow the Applicant User to discuss the matter with the Transporter's Account Bank which we believe would constitute "reasonable efforts" to resolve this matter should it arise.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

Whilst the extent of the bad debt exposure risk would be entirely dependent upon the trading levels of the relevant User, we believe that the following information provides an indication of the *periods* for which other Users and Transporters could be exposed.

In respect of **Transportation** Charges, where a User has been allocated an Unsecured Credit Limit pursuant to UNC TPD Section V3.1.5 and such User

subsequently fails to make payment in full of any invoice, then this will affect its Value at Risk (VAR). If VAR exceeds 100% of the User's Code Credit Limit, the Transporter will notify the User and from the third Business Day following this notification, may give a Termination Notice (in accordance with paragraph V4.3). This action exposes other Users and the Transporter/s to bad debt risk accrued up to the point of Termination.

In respect of **Energy Balancing** Charges if the User goes live, this creates an exposure from the User Accession Date to invoice due date. Whilst this may be underwritten by a Letter of Credit, if this User is then unable to pay, this would nonetheless create an exposure. Where the EBCC elects to terminate the User there is a risk of additional exposure up to the point this can be actioned. In total, there is a potential exposure of up to 80 days from the User Accession Date to the point of termination comprised of:

- Up to a maximum of 77 days from the commencement of the relevant Billing Period to the due date of the relevant Energy Balancing Invoice;
- 1 day to issue a 'failure notice' in response to the User User's failure to pay the Energy Balancing Invoice;
- 1 day for the User to make payment in response to the failure notice; and
- if the payment is not forthcoming, 1 day for a meeting of the EBCC to consider the events and if necessary, recommend termination (effective the following day) of the User.

A Letter of Credit (or indeed any other security tool) is used to provide security for the User's accrued amounts and future invoice liability and is not intended as a primary payment tool. If National Grid NTS was to make a claim on a Letter of Credit to satisfy an outstanding payment obligation, it would then have to give the User not less than 30 days' notice to address its Secured Credit Limit requirements. As a consequence National Grid NTS would hold less or no security but would have an obligation to allow the User to trade as the User would not be in default.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Non-payment of Transportation Charges or Energy Balancing Charges would result in any resultant bad debt costs being recovered from all other Users (subject to allowance of 'cost pass through' in the case of Transportation Charges). We believe that an existing User incurring costs that are not directly linked to its market activities is detrimental to effective competition. Both National Grid and the EBCC believe that 'stopping the issue at source' is a preferable approach that avoids the need to socialise consequential bad debt costs (thereby better facilitating Relevant Objective (d), the securing of effective competition).

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

No additional analysis, development or ongoing costs would be incurred by National Grid NTS. The User Accession process is administered by Xoserve on behalf of all

UNC Transporters and the additional User Accession criteria would be an additional manual check within this existing process.

Implementation of this proposal may in fact reduce ongoing costs by avoiding the need to administer the determination of credit tools, and if necessary the application of the User Default processes.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

As there are no system development or other specific activities requiring completion prior to implementation, National Grid is able to implement this Proposal immediately following the appropriate direction from the Authority.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

National Grid NTS is satisfied that the legal text delivers the intent of this Modification Proposal.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No.