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Modification proposal:	**Uniform Network Code (UNC) 0587: Seasonal Energy Balancing Credit Cover**		
Decision:	The Authority[1] directs this modification be made[2]		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	24 November 2016	Implementation date:	To be confirmed by the Joint Office

Background

Shippers are currently obliged to lodge credit cover in relation to their peak indebtedness for the preceding 12 months or, in the case of new shippers, on their estimated peak indebtedness. Total gas demand is significantly higher in winter months, due to increased demand for heating, among other drivers. Similarly, gas prices are generally higher in the winter months. This means that the collateral lodged by some shippers in summer is in excess of what is needed to cover credit risk exposures during this period.

The modification proposal

The proposal, raised by Opus Energy, seeks to modify the rules so that shippers may look back over the previous 12 months within the same season (summer or winter) when calculating the current credit requirement. The shipper's Credit Call Limit would then be calculated from this seasonal peak indebtedness or, in the case of a New User, projected seasonal throughput. This would create a separate profile for exposure during the winter and summer period in order to align credit cover more appropriately to actual credit exposure. Use of this new process would be optional; users that do not request it would have their peak indebtedness calculated under the existing method.

UNC Panel[3] recommendation

At the UNC Panel meeting on 20 October 2016, a majority of the UNC Panel considered that Modification 0587 would better facilitate the relevant objectives of the UNC and therefore recommended that it be implemented.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 October 2016. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR[4]. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;[5] and

[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.
[2] This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.
[3] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[4] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk. The FMR for UNC 0587 can be found at http://www.gasgovernance.co.uk/sites/default/files/Final%20Modification%20Report%200587%202.0.pdf
[5] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: https://epr.ofgem.gov.uk//Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf

- directing that the modification be made is consistent with our principal objective and statutory duties.[6]

Reasons for our decision

We consider this modification proposal will better facilitate UNC objective (d) and has a neutral impact on the other relevant objectives.

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

The proposer believes that the proposal will better facilitate competition between shippers, by making the costs of security more risk-reflective.

The majority of respondents to the consultation supported implementation. From the seven representations received, five supported implementation, one offered qualified support, and one provided comments.[7] Six respondents believed that the impact on competition would be positive. One respondent was not convinced that the benefits of the change were clear.

At the UNC Panel members also agreed with the majority of consultation respondents that implementation would have a positive impact on objective (d). For smaller parties in particular, the Panel consider that the modification would facilitate the option of a more proportionate and manageable collateral requirement. For instance, this will reduce the collateral requirement of some shippers over summer in line with their reduced consumption, resulting in lower costs for these shippers. Similarly, members believed that it may also lessen barriers to competition by facilitating effective cash flow management of new entrants during the first year and thereafter, taking into account the seasonality of their projected throughput.

We agree that this modification will better facilitate competition between shippers, and note the potential benefits to smaller shippers in particular. We also note safeguards in place aimed at minimising the potential impact on other shippers. Due to the optional nature of the mechanism, shippers may choose to continue with their current arrangements. Further, we note that the additional administrative costs resulting from the new mechanism will be paid for by those who use it.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal *UNC0587: Seasonal Energy Balancing Credit Cover* be made.

Emma Kelso
Partner, Wholesale Markets
Signed on behalf of the Authority and authorised for that purpose

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[6] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.