

## **CODE MODIFICATION PROPOSAL No. xxxx (3)**

"Notice Period for Credit Limit Downgrade and Remedies for Non-compliance."

Version 0.3

**DRAFT**

**Date:** xx/xx/2005

**Proposed Implementation Date:** 01/10/2005

**Urgency:** Non-Urgent to consultation

### **Proposer's preferred route through modification procedures and justification for Urgency (if applicable)**

*This Modification Proposal has been developed within the Uniform Network Code Distribution Workstream. General consensus on its objectives was forthcoming. 'Proceed to consultation' is therefore requested.*

### **Nature and Purpose of Proposal**

This proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "***Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover***" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation.

Uniform Network Code (UNC) Section S3.1 details the invoice payment terms to which Users are obliged to adhere. UNC Section V3.2.4 makes provision for Transporters to review in accordance with the Code Credit Rules a User's Code Credit Limit. This can only take place if a User's (or User's security provider) published credit rating is downgraded.

Currently, the credit limit reduction can only take effect after a notice period of thirty-days or a lesser period agreed by the User. It is proposed that where such a credit rating is reduced, this be reflected by the Transporter with a minimum notice period of two business days or a lesser period agreed by the User

Ofgem's conclusion document "***Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover***" 58/05 identified that where such a reassessment of a User's credit rating leads to a need for revision, the notice period for additional security should be one day rather than the current 30 days. However, Transco believes that one-day notice period is untenable for both Transporters and Users as this provides insufficient time make the necessary arrangements including any required electronic payments.

It is further proposed that where a User does not comply with any request to provide additional security, the following would apply. The User will be in default (all monies will effectively become overdue and payable):

Number of days after default	Action suggested
Day 0	Due date
Day +1	Interest and administration fee trigger
Day +1	Transporter to issue a formal notice of default as to statement of position and how default is to be remedied
Day +3	Formal User response is required
Day +5	Ability to suspend registration of Supply Points

It is proposed that in all instances, interest and administration fees should be charged, in accordance with the above timetable and in line with the amounts detailed in the *Late Payment of Commercial Debts (Interest) Act 1998*. This Act permits a creditor to recover compensation as follows:

Size of the late paid debt	Value of Compensation that can be claimed
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

It is proposed that interest be charged in respect of the credit 'shortfall' at a rate equal to the Bank of England base rate plus eight percentage points per annum. This rate is calculated by adding 8 per cent to the reference rate, which is the Bank of England base rate on 30 June and 31 December each year. This rate is applicable for the following six-month periods i.e. 1 July to 31 December and 1 January to 30 June respectively. Transco believes that this would act as an incentive to ensure appropriate credit arrangements are in place.

It is further proposed to utilise a Statutory Demand will prompt a User to take the required action. Such demand will be issued in accordance with the above timetable.

**Basis upon which the Proposer considers that implementation of the Modification proposal would better facilitate the achievement of the Relevant Objectives**

Transco believes that the measures identified within this Modification Proposal further the GT Licence 'code relevant objective' of facilitating the efficient and economic operation by the licensee of its pipe-line system by ensuring that robust procedures and best practice measures are in place to minimise the impact on the industry of User failure.

**Further information - likely impact on systems, processes or procedures, implementation timescales and suggested text**

Changes would be required in respect of operational processes and procedures. A lead-time of one calendar month will be required for implementation of the Modification if so directed.

**Code Concerned, sections and paragraphs**

Uniform Network Code Section V3.2.4

**Proposer's Representative**

Chris Warner

**Proposer**

Declan McLaughlin

**Signature**

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