

**CODE MODIFICATION PROPOSAL No. 0109**  
"Acceptable Security Tools available to Users for Transportation Credit Arrangements"  
Version 1.0

**Date:** 31/08/2006

**Proposed Implementation Date:** 02/01/2007

**Urgency:** Non-Urgent

**Proposer's preferred route through modification procedures and if applicable, justification for Urgency**

(see the criteria at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752\\_Urgency\\_Criteria.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf))

The subject matter of this Modification Proposal has been discussed within the Uniform Network Code (UNC) Distribution Workstream. General consensus on its objectives was forthcoming. 'Proceed to consultation' is therefore requested.

**Nature and Purpose of Proposal (including consequence of non implementation)**

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. One such recommendation was the range of security tools that should be available to a User to cover any exposure beyond its unsecured credit limit. It further recommended that it would be for each User to determine which, how many and in what percentage they are used.

This Proposal seeks to specify within the UNC the range of acceptable security tools available to Users<sup>1</sup>, these being any of the following tools (or combination of them):

- An approved Letter of Credit or equivalent bank guarantee from a bank with a long term debt rating of not less than A by Moody's or Standard & Poor's,
- Prepayment agreement (payment made before the delivery of the service),
- A performance bond (provided by an insurance company, not a bank),
- Independent security,
- Deposit Deed Agreement (including cash deposit, advance payment or payment made after the delivery of the service but before contract settlement),
- Parent Company Guarantee

Ofgem's conclusions document also advocated use of bilateral insurance as an acceptable security tool. National Grid has identified that a bilateral credit insurance policy is only likely to provide cover for the first or second payments after which the insurer then effectively relinquishes its risk. Therefore the long term credit exposure is not effectively transferred through the insurance product as only these initial payments are covered. National Grid believes that this is not compatible with the nature of the transportation billing processes whereby significant debt can be accrued beyond the initial payments secured by the credit insurance and therefore use of such a policy as security potentially exposes the industry to significant financial

risk. The requirement of security is to cover the Transporter against a Users breach of payment. Therefore, this proposal does not advocate acceptance of bi-lateral insurance as a security tool.

If this Proposal is not implemented, the UNC will not reflect the recommendations contained within the Ofgem conclusions document and Transporters will not be obliged to operate this aspect of their credit arrangements in a consistent manner.

<sup>1</sup> Ofgem Conclusions Document (58/05) paras 3.35-3.36

**Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence**

Implementation of consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination and no inappropriate barrier to entry. This measure facilitates the securing of effective competition between relevant shippers.

**Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text**

The Proposer believes that minimal changes would be required in respect of operational processes and procedures in the event that this Modification Proposal were implemented.

In light of the limited works required to implement, the Proposer believes that this Modification Proposal could be implemented with immediate effect upon direction being received from the Authority.

**Code Concerned, sections and paragraphs**

**Proposer's Representative**

Chris Warner (National Grid Distribution)

**Proposer**

Phil Lucas (National Grid Distribution)

**Signature**

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