

## **TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0521**

"Where a guarantor is downgraded to any speculative rating, removal of the notice period required for the revision of a User's Secured Credit Limit and Code Credit Limit"

Version 1.0

**Date:** 20/12/2001

**Proposed Implementation Date:** 01/01/2002

**Urgency:** Urgent

### **Justification**

The Network Code provides that under certain circumstances, Transco may revise a User's Secured Credit Limit (for measurement of energy balancing debt) or a User's Code Credit Limit (for measurement of Transportation debt) on notice of not less than 30 days (or any lesser period agreed by the User).

For the management of Energy Balancing risk, one such circumstance is the downward revision of any published credit rating of the User or any guarantor. Similarly, in respect of Transportation risk, a revision may be triggered by the reduction of any published credit rating of the User or any person providing surety for the User.

In the event of a downward reduction in any credit rating, whether published or private (for the exclusive use of Transco) which results in a User, guarantor or any other security provider having a speculative rating, then the value of the security may be doubtful. Hence, to protect both Transco and Network Code Users, the notice period for the reduction in the Secured Credit Limit and the Code Credit Limit should be removed thereby enabling Transco to take immediate action to manage any credit risk in these circumstances.

At a meeting of the Energy Balancing Credit Committee on 14 December 2001, Members debated this issue and recommended that it is appropriate to consider the proposal as "Urgent" in order to protect the Community against such circumstances, should they occur.

### **Nature of Proposal**

It is proposed that where any credit rating of a guarantor or any other person providing surety for the User is revised downwards to a speculative grade rating, the existing 30 day notice period shall be removed and Transco shall be entitled to reduce the Secured Credit Limit and Code Credit Limit immediately such that the security will not be included in the calculation of the Secured Credit Limit or Code Credit Limit. Similarly, it is proposed that where any credit rating of a User is revised downwards to a speculative grade rating, the existing 30 day notice period shall be removed and Transco shall be entitled to reduce the Secured Credit Limit and the Code Credit Limit immediately to either zero, or to a level relative to other third party securities that may be provided to Transco in support of the User's liabilities.

## **Purpose of Proposal**

To enable Transco to manage more effectively Energy Balancing and Transportation credit risk in the event that any published credit rating of a User or any security provider is revised downwards to a speculative grade. By removing the existing 30 day notice period for revision of credit limits, Transco is able to apply existing processes immediately, as described in the Network Code Supplement Section 2.6 and the Network Code Section V3.3, in order to manage Energy Balancing and Transportation credit risk.

This reduces the risk of exposure for all Users and therefore can be expected to facilitate competition between Shippers.

## **Consequence of not making this change**

In the event that any published credit rating for a User or any person providing surety for the User is revised downwards to a speculative grade rating, it is probable that other creditors to the User will have the right to seek either cash or alternative security immediately. If this change is not implemented, both the Shipper Community and Transco may face increased credit risk if appropriate action cannot be taken before expiry of the 30 day notice period. Although there is provision within Network Code for the notice period to be reduced with the agreement of the User, it would be unlikely that such agreement would be granted if the effect would be to enhance Transco's rights to manage the credit risk for the Community and Transco.

## **Area of Network Code Concerned**

Network Code Supplement: Energy Balancing Credit Management, 2.2.6 and Section V3.2.4

## **Proposer's Representative**

Mark Cockayne (Transco)

## **Proposer**

Tim M Davis (Transco)

## **Signature**

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