

Draft Modification Report
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
Modification Reference Number 0521
Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

Original proposal rejected as urgent put to postal vote and agreed to go to consultation with 10 days for representation

1. The Modification 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.

It is further proposed that these rules shall apply to any such 30 day notices that have been issued for which the 30 day notice period remains unexpired.

2. Transco's Opinion

In respect of Energy Balancing, Transco is essentially neutral as it is not exposed to any financial risk associated with the acts and in the interests of Users as a whole under the Energy Balancing Credit Rules.

However Transco recognises the benefits that this Modification Proposal would introduce assisting Transco in managing more effectively the Credit Risk framework in place to protect both Transco and Users as a whole from any potential financial loss.

The Modification Proposal proposes to reduce a User's Secured Credit Limit or a Code Credit Limit with immediate effect upon the downward revision of a User's or any other security providers published or private rating to a speculative grade. In Transco's view this minimises the potential for exposure to financial loss as it

removes the requirement for a 30 Day notice period which currently leaves both Transco and Users facing increasing exposure following such an event.

3. Extent to which the proposed modification would better facilitate the relevant objectives

By reducing the risk of exposure to financial loss for all Users, and thereby reducing the potential debt burden via the balancing neutrality mechanism, this Modification Proposal could be viewed as facilitating the securing of effective competition between relevant shippers and between relevant suppliers. Since a potential debt burden may act as a barrier to entry.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

Transco is not aware of any implications for the operation of the system that would result from implementation of this Modification Proposal.

b) development and capital cost and operating cost implications:

Transco is not aware of any impact on capital cost and operating cost that would result from the implementation of this Modification Proposal

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Transco does not believe it appropriate to have any special cost recovery measures in place should the implementation of this Modification Proposal lead to increased costs for Transco.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco is not aware of any such consequence.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

As implementation of this Modification Proposal would facilitate Transco's efficient management of the Energy Balancing and Transportation Credit Risk framework it is anticipated that the level of contractual risk may be reduced.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

No system impact is anticipated as a result of implementation of this Modification Proposal for either Transco or Users.

7. The implications of implementing the Modification Proposal for Users

The implementation of this Modification Proposal is intended to reduce the credit risk on Users via the energy balancing neutrality smearing mechanism and is therefore of potential benefit to Users as a whole.

Affected Users, will however, be immediately required to provide an alternative form of security. Failure to comply with this request may result in the application of credit sanctions in accordance with the Network Code, with the ultimate escalatory route being termination of the User.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

No direct impact as a result of the implementation of this Modification proposal is anticipated.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is unaware of any change in legislative, regulatory obligations or contractual relationships of Transco, Users or Non-Network Code Party as a consequence of the implementation of this Modification Proposal.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages of implementing this Modification Proposal:

- Facilitates more effective management of energy balancing and transportation credit risk enabling Transco to respond in a more timely manner in the event that a Users or any security providers credit rating is downgraded to a speculative grade, resulting in the reduction of all users potential exposure to financial loss.

Disadvantages of implementing this Modification Proposal:

- May reduce the time in which the affected User has to put in place alternative security arrangements potentially increasing the likelihood of credit sanctions being applied and ultimately resulting in the serving of a Termination Notice.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco invites representations.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Transco is unaware of any requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is unaware of any such requirement.

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco is unaware of any works required to implement this Modification Proposal. Changes identified relate to operational controls within Transco's Credit Risk Management functions. Transco can facilitate these changes with immediate effect.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

If the decision was taken to implement this Modification Proposal, it could take effect immediately following direction from the Authority .

16. Recommendation concerning the implementation of the Modification Proposal

In view of the recent implementation of Modification Proposals 0474 (Revision to Indebtedness Cash-Call Trigger) and 0475 (Termination of User in Receivership)and given the general level of support expressed by Energy Balancing Credit Committee members for this Modification Proposal resulting from its consistent objective of protecting users as a whole from the risk of financial loss, Transco recommends implementation of this Modification Proposal.

17. Text

Section V

- 3.2.4(a) A User's Code Credit Limit may from time to time be reviewed and revised, in accordance with the Code Credit Rules, save where paragraph 3.2.4(b)

applies on notice of not less than 30 Days (or any lesser period agreed by the User) to the User:

- (i) at intervals of approximately 12 months;
- (ii) at the User's request (but subject to paragraph 3.2.7);
- (iii) where any published credit rating of the User or any person providing surety for the User is revised downwards;
- (iv) where (but without prejudice to any requirement of the Code Credit Rules) any instrument of surety or security expires or is determined;
- (v) at Transco's request where at any time Transco has reasonable grounds to believe that the effect of the review will be to reduce the User's Code Credit Limit.

3.2.4(b) Where any published credit rating of the User or any person providing surety for the User is revised downwards to the extent that the said credit rating following such revision is less than the minimum prescribed credit rating as set out in the Code Credit Rules, a User's Code Credit Limit may be immediately reviewed and revised by Transco in accordance with the Code Credit Rules, on notice to the User.

The Supplement

2.2.6(a) A User's Secured Credit Limit may also be revised, in accordance with the Energy Balancing Credit Rules, save where paragraph 2.2.6(b) applies, on notice of not less than 30 Days (or any lesser period agreed by the User) to the User:

2.2.6(i) at intervals of approximately 12 months;

2.2.6(ii) where any published credit rating of the User or any guarantor is revised downwards;

2.2.6(iii) where (but without prejudice to any requirement of the Energy Balancing Credit Rules) any Guarantee or instrument of Security expires or is determined;

2.2.6(iv) where at any time Transco has reasonable grounds to believe that the effect of the review will be to reduce the User's Secured Credit Limit.

provided that nothing in this Supplement shall require Transco to undertake a review under paragraph 2.2.6(ii) or 2.2.6(iii).

- 2.2.6(b) Where any published credit rating of the User or any guarantor providing security for the User is revised downwards to the extent that the said credit rating following such revision is less than the minimum prescribed credit rating as set out in the Energy Balancing Credit Rules, a User's Secured Credit Limit may be immediately reviewed and revised by Transco in accordance with the Energy Balancing Credit Rules, on notice to the User.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis

Date: