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Our Reference:  
Your Reference:

[Date 20 July 2010](#)

Dear Tim,

### **Modification Proposal 0298**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

WWU proposes to:

Resolve a number of anomalies in UNC TPD section V which do not clearly provide the required credit position for Users or Transporters.

SSE agree with the following three main elements of this proposal.

- I. Removing a misinterpretation of BPG 4.7 which states “Where a counterparty experiences a material change in its level of trade, a reassessment of required credit cover may be necessary. Where this has occurred as a result of an improved charge forecast by the NWO, counterparties should have one month’s notice of any need to increase collateral”.

Currently, the UNC interprets this to mean that an additional 30 days be allowed (for a User to arrange credit facilities) following a change which must be a minimum 20% increase and be linked to an increase in Transportation charges.

This UNC Modification Proposal seeks to exchange the 20% to a material test (allowing a discussion between Transporters and Users in any specific instance), together with the reason being altered from a price change (which could be anticipated) to an event which could not be anticipated (e.g. an imposed portfolio increase due to industry change).



- II. Removal of bi-lateral insurance term from the UNC. Despite being a defined term no Transporter or User has been able to establish what form this would take should it be sought as a form of surety or security. SSE agree it is appropriate to remove the term so as to avoid confusion.
  
- III. Removal of 80% value of Surety or Security clause in UNC V3.3.2 (a). There was concern in the RG0252 as to enforceability of this clause, coupled with confusion as to its intent which could not be adequately linked to the BPG. In light of these views, it is deemed appropriate to remove the clause so as to avoid confusion and potential inconsistency within the UNC.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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Dear Tim,

### **Modification Proposal 0299**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0299.

WWU proposes to:

Align the timelines in which Transporters may elect to apply portfolio sanctions (on Users), where a Users credit/payment position(s) is not in line with UNC requirements.

In relation to any amount (or amounts in aggregate) of not less than £10,000 which has become due for payment by a User under the Code and the relevant User has not paid the amount in full by the due date for payment the Transporter shall be entitled to reject or refuse to accept all or any of the following by the relevant User.

- An application for System Capacity or increased System Capacity at any System Point under Section B or Section G; and
- A System Capacity Trade under Section B5 in respect of which the User is Transferee User; and
- A Supply Point Nomination of Supply Point Confirmation under Section G, other than a Supply Point Renomination or Supply Point Reconfirmation.

With effect from the day after the due date for payment until such time as the relevant User has paid the amount due for payment in full.

- Where from the fifth Business Day after the date specified in the notice, the User Value at Risk exceeds 100% of the Users Code Credit Limit.



- The Transporter shall be entitled to reject or refuse to accept a Supply Point Nomination or a Supply Point Confirmation under Section G, other than a Supply Point Renomination or Supply Point Reconfirmation until such time as the User's Value at Risk (VAR) and is reduced to less than 100% of its Code Credit Limit.

This modification proposes that the Transporter may impose portfolio sanctions within one business day (currently five in respect of VAR) should the User breach either of the two UNC clauses (UNC TPD Section S 3.5.3 and UNC Section V 3.3.2).

Advantages:

- consistent measures within UNC obligations to protect Transporters from bad debt.
- lessens risk of bad debt costs being absorbed by wider shipper community, via bad debt pass through via Transportation charging.
- protects consumers from potentially entering into contractual arrangements by electing to join a shipper in financial distress.

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal's.

Please do not hesitate to contact me if you wish to discuss this further.

Yours sincerely

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Dear Tim,

### **Modification Proposal 0300**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0300 Version 2.0, but would like to point out some text inconsistencies in the proposal's text.

Northern Gas Networks proposes to:  
Introduce Fitch Ratings as an allowable credit rating agency for the purpose of obtaining an unsecured Code Credit Limit.

#### Advantages

- Consistent approach between GT Licence and UNC.
- Consistent approach across electricity and gas codes.
- Provides Users with additional flexibility for securing unsecured credit.

However, point 17 – 3.1.1 (b) of the proposal i.e. Suggested Text should read as follows:

“3.1.1 For the purpose of the Code:

- b) An “Approved Credit Rating” is a published and monitored long term rating provided by a Credit Ratings Agency as defined in 3.1.1(e) or a Specifically Commissioned Rating of not less than Ba3 by Moody's Investors Service or equivalent rating by *either* Standard & Poor's *or* Fitch Ratings.”



Following on point 17 – 3.4.5 should have the word *two* under “Enforceable”, “Letter of Credit”, “Parent Company” and “Qualifying Company” removed.

In the same point i.e. 17 – 3.4.5 under “Parent Company” point (i), and “Qualifying Company” point (i), the term *a long term debt rating*, should be changed to *an approved credit rating*.

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal’s point 3.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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Dear Tim,

### **Modification Proposal 0301**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0301.

Northern Gas Networks proposes to:  
Remove Specially Commissioned Ratings as an acceptable tool for obtaining an Unsecured Credit Limit.

Currently UNC TPD V3.1.1 (d) defines a Specially Commissioned Rating as being “*a rating commissioned and paid for by a User which either Moody’s Investor’s Service or Standard and Poor’s and which shall be monitored on a daily basis and reassessed on an annual basis.*”

This type of rating is not subject to same level of ongoing monitoring by the credit rating agencies as a published rating is, and is not upgraded or downgraded in light of ongoing events, with the snapshot rating valid only at the time that it is initially set. This inconsistency poses a risk to other Users that cannot be reasonably mitigated.

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal’s point 3.

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Dear Tim,

### **Modification Proposal 0302 version 2.0**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

WWU proposes to:

Recommend a revised definition of RAV (Regulatory Asset Value) to formalise the use of a more up to date RAV with regards to the setting of maximum unsecured Transportation credit limits.

This will be achieved by referencing the RAV published by the Authority in its relevant Price Control Final Proposal for the price control period.

The RAV value will then be published by the Transporter (annually) clearly setting out the period within which it operated for the purposes of calculating a Users maximum unsecured credit limit.

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

Please do not hesitate to give me a call if you wish to discuss this further.

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### **Modification Proposal 0303**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0303.

WWU proposes to:

Maintain Obligation for Users to maintain a Code Credit Limit and at a reasonable level (provide security at reasonable level beyond User admission criteria).

This proposal will oblige any User who receives 100% VAR notices in two consecutive calendar months to establish a CCL (Core Credit Limit) to the value of the highest 100% VAR notice in the preceding two month period.

#### **Advantages**

- ensures all Users have adequate credit limit commensurate with their exposure to Transportation charges.
- reduces likelihood of any defaulting User having its bad debt allocated to other Users via Transportation charges.
- prevents Users taking on new customers (who may have to provide security) when the Users future may be uncertain.

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

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### **Modification Proposal 0304**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE wishes to make comments on proposal 0304.

Northern Gas Networks proposes to implement a table similar to that already approved by Ofgem for use in DCUSA into UNC to add clarity on the application of Independent Assessment Scores.

However, not all the ratings have been identified in the table provided in the modification proposal. E.g. Dunn & Bradstreet have a credit rating system which go down to a '4' i.e. '5A4' and this hasn't been taken into account within the table.

Also Graydons ratings go down to a 'D' i.e. '1D', which again haven't been mentioned in the table.

SSE question whether these have been purposely omitted as they are not considered valid ratings or if they had been missed.

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### **Modification Proposal 0305**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0305.

National Grid NTS proposes:

That TPD Sections V3.1.5 and V3.1.6 should be amended to indicate that credit provision based on a User's payment history is only available as an option up to 2 year anniversary date of the User acceding to the UNC. After such time the User would not be eligible to use this credit tool. All other credit tools available within TPD Section V, such as independent assessment, Deposit Deed, etc would continue to be available to the User.

Inadditoin further amendments to the aforementioned UNC Sections are proposed to allow for User administration errors:

- Amend 3.1.6 to allow for payment that is received up to and including 2 days after the payment due date, The Unsecured Credit Limit would not increase for the following month and interest would be charged on the late payment.
- The Unsecured Credit Limit would not be reset to zero in the first instance but if payment was late more than once within a rolling 12 calendar month period then the credit limit would reset to zero. Interest would also be charged on the second late payment.



#### Advantages

- Reduces risk from pass through of bad debt resulting from a credit default.
- Introduces a CUSC style 'soft landing' to allow for a User administration error.
- Continues to facilitate new entrants.

#### Disadvantages

- Removing a form of unsecured credit for a User after 2 years of acceding to UNC.

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

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### **Modification Proposal 0306**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0306.

Scotia Gas Networks proposes to:

Introduce a centralised Shipper credit security register which will be administered and maintained on behalf of Transporters by their agency.

This proposal if implemented, would introduce UNC obligations onto Shipper Users to provide credit security contact details at the point of initial accession to the UNC and subsequently where there are any amendment to these details.

The following details will be collated and maintained for each Shipper User:

- A single telephone number
- A single facsimile number
- Credit Contact name
- Credit Contact address

#### **Advantages**

- This would provide a central credit security contact database that would be regularly maintained with relevant details.
- The sanction process would be more efficient and conducted in a timely manner.
- This would reduce the Transporter risk to debt recovery.



SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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### **Modification Proposal 0307**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0307.

Scotia Gas Networks proposes to:  
Align UNC Section V 4.3.1 (a) with the Insolvency Act 1986 thereby having the effect of reducing the £10,000 threshold to £750 in relation to circumstances where a Shipper User can be defined as a Defaulting User. This also ensures the limit is appropriate going forward by linking it to the Insolvency act rather than an arbitrary value.

However, SSE note that the Insolvency Act has a payment window of 21 days but under the code the payment should be made within 15 days, this is therefore inconsistent with the Insolvency Act.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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Dear Tim,

### **Modification Proposal 0308**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

WWU proposes to:

Better define the terminology of security and surety so as to remove any ambiguity when credit issues are being considered.

SSE agrees with the table below illustrating what instrument of credit is surety or security.

<b>Instrument of Credit</b>	<b>Form</b>	<b>Form</b>
Letter of Credit	Surety	
Guarantee	Surety	
Deposit Deed		Security
Prepayment Agreement		Security

SSE would like to comment, that under the point 3.4.5 for the definition of “Enforceable”, the credit rating agency Fitch has not been included. Under the separate proposal being considered current (Mod 0300), Fitch is being considered as an allowable Credit Rating Agency, hence its name should be reflected in “Enforceable’s” definition.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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Dear Tim,

### **Modification Proposal 0309**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0309.

WWU proposes to:

Further clarify the timeframes around establishing and maintaining Guarantees and Letters of Credit (LOC). Both are different types of surety, however their worth in terms of credit protection differs as their end dates near.

Assuming a Guarantee end date is 31<sup>st</sup> October, a credit limit (based on this Guarantee) will be set to zero if a Guarantee is not extended or replaced by 30<sup>th</sup> September with document effective 1<sup>st</sup> November (or earlier).

Assuming a LOC with an end date of 31<sup>st</sup> October, the credit limit will be set to zero if the LOC is not extended or replaced by 30<sup>th</sup> September (or earlier).

Advantages:

- Provides clarity and certainty for all Users on timeframes for re-establishing lines of credit using these two forms of surety.
- Reduces likelihood of Transporters being timed out when claiming against surety, therefore protecting Users from potential User bad debt being charged via Transportation charges.



SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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Dear Tim,

### **Modification Proposal 0310**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0310.

Scotia Gas Networks proposes to:

Remove the current credit requirement within UNC (V3.3.4), which otherwise would lead to the unnecessary 'over securitisation' of DNO's from October 2012. Removing this DNO reference would additionally remove deferential treatment which currently exists whereby NGD and NTS are a single entity for credit purposes (and as such NGD are not governed by this credit requirement but the iDNOs are).

Currently the Value at Risk (Section V, paragraph 3.2.1 (d) (i) and (ii)) is defined as the amount invoiced to the User remaining unpaid plus the average daily charge invoiced to the User in the previous calendar month multiplied by 20. Energy balancing charges are excluded. Normally, therefore, the Value at Risk for a User will be equivalent to the cost of 51 days Exit (Flat) Capacity charges.

To move from providing credit cover for 51 days to credit cover for 12 months will represent a significant increase in costs for DNO Users.

This Modification proposal therefore proposed that paragraph V3.3.4 in UNC TPD Section V should be amended to exclude DNO Users from this requirement.

Advantages:

- Ensures DNOs are not over securitised in respect of potential charges to National Grid NTS.



- Remove differential treatment between NG Distribution and other.
- DNO's in respect of credit arrangements with NG NTS. Removal of over securitisation will reduce cost for shippers (and consumers).

Disadvantages:

- Decrease securitisation for National Grid NTS in respect of NTS capacity charges booked by some GDNs.

SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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Dear Tim,

### **Modification Proposal 0311 version 3.0**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is supportive of proposal 0311.

WWU proposes to:

An alternative to Modification Proposal (13) raised by Scotia Gas Networks (SGN). This proposal mirrors the intent within SGN's Modification Proposal of seeking to remove the current credit requirement within UNC (V3.3.4) which otherwise would lead to the unnecessary over securitisation of DNO's from October 2012. Removing this DNO reference would additionally remove the differential treatment which currently exists where NGS and NTS are single entity for credit purposes (and as such NGD are not governed by this credit requirement but the iDNs are).

This modification Proposal also seeks to amend other anomalies within UNC TPD Section V3 and V4 which if amended will better facilitate the Transporter Licence conditions (against the existing UNC), than the Modification Proposal raised by SGN (13).

The following table sets out the anomalies in the UNC TPD V impacted by this proposal contrasted with that raised by SGN.



	<b>Proposal 13 (SGN)</b>	<b>Proposal 13a (WWU)</b>
1 Removal of 12 month iDN securitisation requirement for NTS Exit Capacity charges	YES	YES
2 Removal of circa 51 days iDN securitisation requirement for all	NO	YES
3 Removal of requirement for IDNs to securitize against DN Pension charges	NO	YES
4 Removal of unworkable DN Termination facility in UNC V4	NO	YES
5 Removes unintended credit consequences of Mods 116, 127, 195AV and any future DNO charges	PARTIALLY	YES
6 Removes differential treatment of DNs by NTS in V3	PARTIALLY	YES
7 Removes potential increased security cost pass through to Shippers due to UNC requirements (above)	PARTIALLY	YES

#### Advantages:

- Ensures DNOs are not over securitised in respect of potential charges to National Grid NTS.
- Removes differential treatment between NG Distribution and other DNO's in respect of credit arrangements with NG NTS.
- Removal of over securitisation will reduce cost for shippers (and consumers).
- Removes the need to raise a subsequent UNC proposal seeking to ensure Shippers securitise 12 month of LDZ ECN Charges with some DNOs.
- Remove unintended consequences of Modification Proposal 0195AV.
- Makes UNC Termination arrangements not applicable to Transporters.

#### Disadvantages:

- Decrease securitisation for National Grid NTS in respect of NTS capacity charges booked by some GDNs.



SSE agrees with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

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