

CODE MODIFICATION PROPOSAL No. 0023
"Re-assessment of User Unsecured Credit Limits"
Version 1.0

Date: 08/06/2005

Proposed Implementation Date: 01/10/2005

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)

This Modification Proposal has been presented to the Uniform Network Code (UNC) Distribution Workstream. Further clarification and development is required and therefore referral to the UNC Distribution Workstream is requested.

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

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.

This Proposal seeks to implement elements of recommendations detailed within paragraphs 3.4 to 3.9 of the conclusion document.

In accordance with the Code Credit Rules, UNC Section V3.1 details the Code Credit Limits to which Transporters and Users are obliged to adhere. A Code Credit Limit is the amount representing a Users maximum permitted Relevant Code Indebtedness being the aggregate amount, other than Energy Balancing Charges, for which a User is liable to Transco. The overall cap is currently set at £250million.

It is proposed that a Relevant Transporter sets a maximum unsecured credit limit based on 2% of its Regulatory Asset Value. Whilst this would not constrain Relevant Transporters, those who seek other levels of risk may not obtain full pass through in the event of a failure and/or may be subject to objections and disputes from counterparties.

In respect of an individual User's Unsecured Credit limit, this is currently assessed by Transco based on an Investment Grade Rating provided by an approved rating agency being either *Moody's KMV* or *Standards & Poor's*. Ofgem's paper concluded that individual counterparty credit limits and those that use Parent Company Guarantees or aggregates of both, should be set using credit ratings (provided by the aforementioned rating agencies) applied under the 'Basel 2' rules for determining bank capital adequacy. These currently are in the ratio of 1 : 2.5, 1 : 5, 1:

7.5, for *Standards & Poor's* AAA/AA, A, BBB ratings (or Moody's KMV equivalent). These respectively would imply maximum credit allowances of, 100 percent for AAA/AA and 40 percent for A.

For the third band, (BBB) Ofgem proposes that the above allowance be further sub-divided, such that the following are applied to rated entities:

<i>Standard & Poor's</i> Credit rating	Credit allowance as % of maximum credit limit
BBB+	20
BBB	19
BBB-	18

Transco therefore proposes to amend the UNC to reflect the above method of assessment of User Unsecured Credit Limits.

The scope of the above unsecured credit arrangements mirror the scope currently contained within the 'Code Credit Rules' and therefore Transco does not propose to facilitate unsecured credit limits for entities with *Standards & Poor's* ratings of BB+, BB or BB- (or Moody's KMV equivalent).

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

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.

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

Minimal changes would be required in respect of operational processes and procedures and therefore this Modification could be implemented with immediate effect if appropriate direction is received from the Authority.

Code Concerned, sections and paragraphs

Uniform Network Code Section V3.1

Proposer's Representative

Chris Warner (National Grid Transco - UKD)

Proposer

Declan McLaughlin (National Grid Transco - UKD)

Signature

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