

**Draft Modification Report**  
**Notice Period for Credit Limit Downgrade and Remedies for Non-compliance**  
**Modification Reference Number 0025**  
 Version 2.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 9.6.

**1. The Modification Proposal**

This is one of a number of Proposals 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 recommendations detailed within paragraphs 3.50 to 3.54 of the conclusion document.

Uniform Network Code (UNC) Section S3.1 details the invoice payment terms to which Users are obliged to adhere. UNC Section V3.2.4 makes provision for Transporters to review in accordance with the Code Credit Rules a User’s Code Credit Limit. This can only take place if a User’s (or User’s security provider) published credit rating is downgraded.

Currently, the credit limit reduction can only take effect after a notice period of thirty-days or a lesser period agreed by the User (unless the downgrade is of the User’s published credit rating to a level below the minimum prescribed by the Transporter/s in which case the credit limit can be immediately revised). It is proposed that where such a credit rating is reduced, this be reflected by the Transporter with a minimum notice period of two Business Days or a lesser period agreed by the User

It is further proposed that where a User does not comply with any request to provide additional security, the following would apply. The User will be in default (all monies will effectively become overdue and payable):

<b>Number of Days After Default</b>	<b>Action Suggested</b>
Day 0	Due Date
Day +1	Administration and daily fee trigger
Day +1	Transporter to issue formal notice of default as to statement of position and how default is to be remedied.
Day +3	Formal User response is required
Day +5	Ability to suspend registration of Supply Points

It is proposed that in all instances, administration and daily fees should be charged in accordance with the above timetable in line with the amounts detailed as follows:

<b>Size of Credit ‘shortfall’</b>	<b>Administration fee that can be claimed</b>
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

It is proposed that a daily fee be charged in respect of the credit ‘shortfall’ at a rate equal to the Bank of England base interest rate plus eight percentage points per annum. This rate is calculated by adding 8 percentage points to the reference rate, which is the Bank of England base rate on 30 June and 31 December each year. This rate is applicable for the following six-month periods i.e. 1 July to 31 December and 1 January to 30 June respectively. Transco believes that this would act as an incentive to ensure appropriate credit arrangements are in place.

It is further proposed to utilise any other legal remedy available. It is anticipated that this would prompt a User to take the required action.

**2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

**3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

No such implications on security of supply, operation of the Total System or industry fragmentation have been identified.

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including**

**a) implications for operation of the System:**

No implications for operation of the system have been identified.

**b) development and capital cost and operating cost implications:**

The proposer has suggested that any costs would be minimal.

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

No cost recovery mechanism is proposed.

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

No such consequences are anticipated.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequence is anticipated.

**6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

No systems impacts are anticipated by either Transporters or Users.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

The Proposal may increase costs for some Users. It may not be practical for Users to put in place the required security within the minimum timescale proposed.

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

No such implications have been identified.

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

No such consequences are anticipated.

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

**Advantages**

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document.
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Significant reduction in time available to take required steps following reduction of a Users Credit Limit (reduced Transporter risk).

**Disadvantages**

- Significant reduction in time available to take required steps following reduction of a Users Credit Limit (increased Shipper risk).

- Potentially increases some Users' costs through application of penal interest rate.

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

Representations are now invited.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**13. The extent to which implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

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

Changes would be required in respect of operational processes and procedures were this Modification proposal to be implemented.

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

In light of the works required to implement, the Proposer suggests that a lead-time of one calendar month will be required for implementation of the Modification Proposal if so directed.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

**18. Text**

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT**

**SECTION V: GENERAL**

*Amend paragraph 3.2.4 to read as follows:*

A User's Code Credit Limit may from time to time...on notice of not less than 30 Days in the case of (a), (b), (d) and (e) or 2 Business Days in the case of (c) below (or in any such case, such lesser period agreed by the User) to the User:

*Add new paragraph 3.2.9 to read as follows:*

Where a User's Code Credit Limit has been revised downwards in accordance with paragraph 3.2.4 (c) above, such User must where notified by the Transporter provide additional surety or security no later than 0559 on the second Business Day after the date of the notice given pursuant to paragraph 3.2.4. Where a User has not provided additional surety or security by such date, the User shall pay to the Transporter:

(a) such amount as set out in the table below based upon the amount of additional surety or security demanded by the Transporter; and

Amount of additional security required	Amount
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

(b) a daily charge equivalent to that percentage rate as is set out from time to time in the Late Payments of Commercial Debts (Interest) Act 1998 multiplied by the amount of additional security demanded by the Transporter.

Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**

Signature:

Date :