

CODE MODIFICATION PROPOSAL No. 0077

"Notice Period for Code Credit Limit Revision (as a consequence of Credit Rating downgrade) and remedies for non-compliance with a request for provision of additional security."

Version 2.0

Date: 12/04/2006

Proposed Implementation Date: 01/07/2006

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)

To be discussed within the Uniform Network Code (UNC) Distribution Workstream.

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

This Proposal seeks to implement recommendations identified within Ofgem's conclusions document "*Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover*" 58/05. This document detailed the high-level principles that should be applied in respect of credit cover arrangements.

This Proposal seeks to implement elements of recommendations detailed within paragraphs 3.11 and 3.50 to 3.54 of the conclusions document.

Notice Period for Code Credit Limit Revision (as a consequence of Credit Rating downgrade)

Uniform Network Code (UNC) Section S3.1 details the invoice payment terms to which Users are obliged to adhere. UNC Section V3.2.4(c) makes provision for Transporters to review (in accordance with the Code Credit Rules) a User's Code Credit Limit as a consequence of a User's (or User's security provider) published credit rating being downgraded.

Currently, reduction of a User's Code Credit Limit in these circumstances can only take effect after a notice period of thirty-days (or a lesser period agreed by the User).

In line with the conclusions document, it is proposed that this notice period is two business days (the notice from the Transporter having been issued to the User the business day following the downgrade of the User's (or User's security provider) Credit Rating). Therefore the revised Code Credit Limit becomes effective from the third business day following the downgrade of the relevant User's credit rating.

Remedies for non-compliance with a request for provision of additional security

Where the above reassessment of a User's Code Credit Limit subsequently requires the posting of additional security, it is proposed that this request is incorporated into

the above notice issued by the Transporter to the User and therefore the deadline for provision of additional security is two Business Days following issue.

It is proposed that where a User fails to provide the additional security (to return the User to a maximum 100% Code Credit Limit utilisation), with effect from the day following expiry of the notice period, a daily charge equivalent to that percentage interest rate as is set out from time to time in the Late Payments of Commercial Debts (Interest) Act 1998 be charged in respect of the credit 'shortfall'. This rate is calculated by adding the appropriate equivalent percentage interest 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. National Grid believes that this would act as an incentive to ensure appropriate credit arrangements are in place.

Additionally, it is proposed that where a User fails to provide the additional security by the required deadline, an administration fee may be levied according to the size of the credit shortfall, the fee being as follows.

| Amount of credit shortfall | Value of Compensation that can be claimed |
|----------------------------|---|
| Up to £999.99 | £40 |
| £1,000 to £9,999.99 | £70 |
| £10,000 or more | £100 |

Overall, it is proposed that the above defined measures be applied according to the following timetable:

| Relevant Day | Action |
|--------------|--|
| Day -3 | User's (or User's security provider) Credit Rating downgraded. Transporter notified by relevant approved credit rating agency. |
| Day -2 | Transporter issues notice to User of new Code Credit Limit (effective from day 0). If relevant, notice also issued of requirement for User to provide additional security (required by day 0). |
| Day 0 | Effective date for new Code Credit Limit and deadline for provision of additional security (if required). |
| Day +1 | Where additional security not provided: Interest and administration fee trigger. Transporter to issue a formal notice of credit shortfall and how position is to be remedied |
| Day +3 | Where additional security not provided: Formal User response is required |

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

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

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

Changes would be required in respect of operational processes and procedures. A lead-time of one calendar month would be required for implementation of the Modification Proposal if so directed.

Code Concerned, sections and paragraphs

Uniform Network Code Section V3.2.4

Proposer's Representative

Chris Warner (National Grid)

Proposer

Declan McLaughlin (National Grid)

Signature

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