

CODE MODIFICATION PROPOSAL No. 0106
"Acceptable Security Tools available to Users for Transportation Credit Arrangements"
Version 1.0

Date: 10/08/2006

Proposed Implementation Date: 01/11/2006

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)

This Modification Proposal has been developed within the Uniform Network Code (UNC) Distribution Workstream. General consensus on its objectives was forthcoming. 'Proceed to consultation' is therefore requested.

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

In respect of transportation credit arrangements, Ofgem published a number of recommendations in its conclusions document "*Best practice guidelines for gas and electricity network operator credit cover*" 58/05 in February 2005. One such recommendation was the range of security tools that should be available to a User to cover any exposure beyond its unsecured credit limit. It further recommended that it would be for each User to determine which, how many and in what percentage they are used.

This Proposal seeks to specify within the UNC the range of acceptable security tools available to Users (Ofgem Conclusions Document (58/05) paras 3.35 – 3.36) these being any of the following tools (or combination of them):

- An approved Letter of Credit or equivalent bank guarantee from a bank with a long term debt rating of not less than A by Moody's or Standard & Poor's,
- Prepayment agreement (payment made before the delivery of the service),
- A performance bond (provided by an insurance company, not a bank),
- Bi-lateral insurance,
- Independent security,
- Deposit Deed Agreement (including cash deposit, advance payment or payment made after the delivery of the service but before contract settlement),
- Parent Company Guarantee

If this Proposal is not implemented, the UNC will not reflect the recommendations contained within the Ofgem conclusions document and Transporters will not be obliged to operate this aspect of their credit arrangements in a consistent manner.

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

Implementation of consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination and no inappropriate barrier to entry. This measure facilitates 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

The Proposer believes that minimal changes would be required in respect of operational processes and procedures in the event that this Modification Proposal were implemented.

In light of the limited works required to implement, the Proposer believes that this Modification Proposal could be implemented with immediate effect upon direction being received from the Authority.

Code Concerned, sections and paragraphs

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Proposer's Representative

Chris Warner (National Grid)

Proposer

Phil Lawton (National Grid)

Signature

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