

Draft Modification Report
Specially Commissioned Credit Ratings
Modification Reference Number 0107

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

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 that a User should be able to utilise a Specially Commissioned Rating (obtained from either Moody’s or Standard & Poors) to obtain unsecured credit from the Transporter.

Unsecured credit obtained via a public rating is already provided for within the Uniform Network Code (UNC) following the implementation of Modification 0031 ‘*Re-assessment of User Unsecured Credit Limits*’.

It is proposed to add provisions to the UNC which allow a User to utilise a Specially Commissioned Rating (Ofgem Conclusions Document (58/05) para 3.8) obtained from either Moody’s or Standard & Poors credit rating agencies to obtain unsecured credit from the Transporter. The proposed provisions would further reflect that:

In the event that both approved agencies are commissioned to provide a rating and such conflict, the rating that affords the lower level of unsecured credit would be utilised,
The ratings must be monitored and re-assessed at least annually, and
The User would bear the cost of any initial assessment and any periodic reviews (for the duration that the User utilises such rating to obtain unsecured credit from the Transporter).

It is proposed that a Specially Commissioned Credit Rating would be subject to all UNC provisions which relate to public ratings; for example the level of credit afforded in respect of each acceptable rating and those concerning consequences of a rating downgrade.

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.

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

The proposer believes that 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. It believes that this facilitates 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 or operation of the Total System have been identified. Incorporating elements of credit rules within the UNC may help to reduce the impacts of any industry fragmentation.

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:

No development and capital cost and operating cost implications have been identified.

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 on price regulation have been identified.

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

Though implementation may increase the value of unsecured credit afforded by Transporters, the level of risk (ie: likelihood of failure) is equivalent to that currently permitted by the UNC for Users which have an Approved Credit Rating provided by Moody's or Standard & Poors.

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 implications have been identified.

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

Users would bear the costs of the initial assessment and any periodic reviews required where the specially commissioned rating is used to obtain unsecured credit from the Transporter.

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 have been identified.

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

Advantages

Provides the User with an additional means of obtaining unsecured credit from a Transporter.
Alignment with Best Practice Guidelines.

Disadvantages

Potentially increases the value of credit which is unsecured.

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

Written Representations are now sought in respect of this Draft Report

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 the 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

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. Specific comments are invited from other parties in respect of implementation requirements.

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

The proposer believes that in light of the limited works required to implement, this Modification Proposal could be implemented with immediate effect upon direction being received from the Authority. Specific comments are invited from other parties in respect of the timetable for implementation.

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

19. Text

TPD SECTION V: GENERAL

Amend paragraph 3.1.1 to read as follows:

“3.1.1 For the purposes of the Code:

- (a) the “**Regulatory Asset Value**” is...
- (b) an “**Approved Credit Rating**” is a published and monitored long term issuer rating, or a Specially Commissioned Rating of not less than Ba3 by Moody’s Investor’s Service or equivalent rating by Standard and Poor’s.
- (c) the... in accordance with the table set out in paragraph V3.1.6”
- (d) a “**Specially Commissioned Rating**” is a rating commissioned and paid for by a User with 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.

The Transporter will determine...(The “Maximum Unsecured Credit Limit). The User shall notify the Transporter within 1 Business Day if the User’s Approved Credit Rating changes or if the User has a reasonable belief that it’s Approved Credit Rating is likely to change.

Amend paragraph 3.2.5 to read as follows:

“A User’s Code Credit Limit...

- (a)...
- (b)...
- (c) where any published or Specially Commissioned Rating of the User ...
- (d)...
- (e) at...Limit.

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report

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 :