

CODE MODIFICATION PROPOSAL No. 0107
"Specially Commissioned Credit Ratings"
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 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.

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

Section V

Proposer's Representative

Chris Warner (National Grid)

Proposer

Phil Lawton (National Grid)

Signature