

## **CODE MODIFICATION PROPOSAL No. 0111**

"Management of Users Approaching and exceeding Upper Limits of Credit Limit"  
Version 1.0

**Date:** 08/09/06

**Proposed Implementation Date:** 01/04/07

**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](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.

Pursuant to recommendations contained within the conclusions document it is proposed that where a User's indebtedness reaches 80% of the value of the credit limit in place, the Transporters issue a warning notice to the User which would not be accompanied by calls for additional security or the disconnection of existing customers and/or inhibiting the registration of new customers)<sup>1</sup>. Whilst the conclusions document advocated that this notice is issued at 85%, National Grid Distribution believes that implementation efficiencies for Transporters can be achieved if this notice is issued at 80%. This level of indebtedness is a key point in other aspects of the proposed credit arrangements and given that no sanctions are applied at this level (it merely being a notice) this would not appear to be a significant deviation from the conclusions document. It is proposed to remove the current notice requirements at 70% and 85% credit limit usage.

It is proposed that the current measures available for Transporters (pursuant to UNC TPD section V3.3.2) are only available where indebtedness exceeds 100% of its credit limit. The measures being the entitlement for the Transporter to reject:

- *an application for System Capacity or increased System Capacity,*
- *a System Capacity Trade, or*
- *a Supply Point Nomination or Confirmation (subject to the following proposed provisions).*

It is further proposed that where a User's indebtedness exceeds 100% of the value of the credit limit in place, the User be required (by a notice issued to the User on the following Business Day) to provide additional security within two Business Days of the date of the notice sufficient to reduce the indebtedness level below 100%. Where

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<sup>1</sup> Ofgem Conclusions Document (58/05) para 3.46

the additional security is provided after the two business days identified above, the value of this additional security would be required to be sufficient to reduce the User's indebtedness to 80% of the credit limit. For the following 12 month period, the value of the security in place will be deemed to be 80% of its normal value.<sup>2</sup>.

It is further proposed to incorporate within the UNC provisions concerning remedies for instances where a User fails to provide additional security (where VAR exceeds the value of the credit limit) following a notice issued by the Transporter. Where such additional security is not forthcoming the Transporter would claim liquidated damages in line with the Late Payment of Commercial Debts (Interest) Act 1998 based on the value of the additional security outstanding<sup>2</sup>.

The above sanctions will be applied in accordance with the following timetable:

Number of Business Days after expiry of notice	Action
0	Expiry of notice (2 business days following date of issue)
1	Liquidated damages trigger (in line with Late Payment of Commercial Debts (Interest) Act 1998). Transporter issues statement of position to User and confirms how default is to be remedied.
3	Formal User response required
5	Sanction available to Transporter to suspend registration of Supply Points (Supply Point Nomination and Confirmation)

It is further proposed that where a User experiences a material change to its level of trade (detected via monthly assessment of the Value at Risk) as a consequence of an increase in the relevant Transporter's transportation charges, a notice period of one month will be allowed for the User to post any additional security required<sup>3</sup>. A 'material change' will be a change of +20% or greater from the previous month.

If this Proposal is not implemented, 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.

<sup>2</sup> Ofgem Conclusions Document (58/05) paras 3.50 – 3.53

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<sup>3</sup> Ofgem Conclusions Document (58/05) para 3.47

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

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

In light of the work required, the Proposer believes that this Modification Proposal could be implemented with effect from 3 months following the appropriate direction being received from the Authority.

**Code Concerned, sections and paragraphs**

Changes are likely to be required within Section B and V of the UNC.

**Proposer's Representative**

Chris Warner (National Grid)

**Proposer**

Phil Lawton (National Grid)

**Signature**

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