

CODE MODIFICATION PROPOSAL No. 0112
“Aggregation of Credit Positions or Use of Group Ratings”
Version 1.0

Date: 08/09/06

Proposed Implementation Date: 02/01/07

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)

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 Users may aggregate their credit positions or use group ratings (for example Parent Company Guarantees (PCGs)) providing that the arrangements are robust and unconditional¹. The conditions for the acceptance of such are:

- The credit support provider must offer a guarantee which is legally enforceable in England and Wales. Guarantors based outside England and Wales may be required to provide legal opinion of enforceability,
- The guarantor entity will be subject to the same credit scoring process as the buyer, and must also be willing to provide information to facilitate the completion of this process; and
- The country of residence of the guarantor must have a sovereign credit rating of at least BB- awarded by Moody’s or Standard & Poors. If the rating agencies differ, the lower rating will apply.

Where a counterparty benefits from a suitable PCG, the unsecured credit limit assigned to that counterparty would be based on the credit strength of the guarantor. Thus for example, a BB counterparty guaranteed by an A rated parent would obtain an unsecured limit equal to 40 per cent of the relevant NWO’s maximum credit limit. Where more than one counterparty obtains credit from a single PCG, the aggregate counterparty credit limits (obtained via that PCG) shall not exceed the credit entitlement of the parent.

¹ Ofgem Conclusions Document (58/05) paras 3.9 – 3.10

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.

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 of implementation of this Modification Proposal.

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

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

Proposer's Representative

Chris Warner (National Grid)

Proposer

Phil Lawton (National Grid)

Signature

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