

CODE MODIFICATION PROPOSAL No. 0113

“Availability of Unsecured Credit Based on User Payment Record or Independent Assessment”
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)

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.

In line with a recommendation of the above, the implementation of UNC Modification 0031 dictated that the unsecured credit limit for an individual User is set as a proportion of a Transporters maximum credit limit (being 2% of the Transporter’s Regulatory Asset Value). The proportion of this maximum credit limit afforded to a User is determined by the public credit rating of the User (subject to a minimum level) allocated by two credit rating agencies; Moody’s and Standard & Poors.

Pursuant to a further recommendation of the conclusions document, it is proposed that a User without a credit rating allocated by Moody’s or Standard & Poors or with public rating allocated by the aforementioned agencies that is below the current prescribed minimum (Standard & Poors BB- or Moodys equivalent) be able to obtain unsecured credit via two alternative means:

1. Payment Record¹:

A User that settles all of its Transportation invoices by the due date on an ongoing basis obtains an unsecured credit level of 0.4% per 12 month period (escalating on an evenly graduated basis each month) up to a maximum of 2% of the Transporter’s maximum credit limit (obtained after 60 months unblemished payment record). Any failure to pay a transportation invoice by the due date would return the User to 0% unsecured credit.

For illustrative purposes, the level of unsecured credit is thus accrued as follows

¹ Ofgem Conclusions Document (58/05) paras 3.16 – 3.17

Time period from last late payment	Additional Credit allowance as % of Transporter's maximum credit limit	Aggregate Credit allowance as % of Transporter's maximum credit limit
1 month	0.033	0.033
2 months	0.033	0.067
3 months	0.033	0.1
4 months	0.033	0.133
5 months	0.033	0.167
6 months etc	0.033	0.2
1 year	0.4	0.4
2 years	0.4	0.8
3 years	0.4	1.2
4 years	0.4	1.6
5 years	0.4	2.0

2. Independent Assessment²:

An assessment by one of a panel of three appointed agencies selected by the Transporter would allocate a rating allowing the User:

- for unrated Users from 3⅓% up to 20% of the Transporter's maximum credit limit,
- for Users with a Moody's or Standard & Poors rating below prescribed minimum from 3⅓% up to 13⅓% of the Transporter's maximum credit limit.

Where unsecured credit is afforded by the relevant Transporter on the basis of an independent assessment, an annual re-assessment will be required. It is proposed that liability for the cost of the initial assessment and annual re- assessment would be as follows:

- Relevant Transporter – 80%
- User – 20%

The cost of any additional interim reviews procured outside the above identified occurrences (i.e. initial assessment and annual re-assessment) will be borne by the User.

Where such assessments are obtained, unsecured credit will be allocated based upon a score between 0 and 10 in accordance with the following:

Standard & Poors Credit Rating (or Moody's equivalent)	Independent Assessment Score		Credit allowance as % of Transporter's maximum credit limit
	Unrated Users	Users with rating below prescribed minimum	
BBB+	10	~	20
BBB	9	~	19
BBB-	8	~	18
BB+	7	~	17
BB	6	~	16
BB-	5	~	15
<BB-	4	4	13⅓
	3	3	10

² Ofgem Conclusions Document (58/05) paras 3.21 – 3.24

	2	2	$6\frac{2}{3}$
	1	1	$3\frac{1}{3}$
	0	0	0

Application

In respect of the interaction between unsecured credit obtained by payment history or independent assessments, a User would only be able to obtain unsecured credit from one of the two alternatives at any one time.

It is anticipated that a User will only request an Independent Assessment from the Transporter where it reasonably believes that such an assessment will result in a credit scoring of at least 1 (representing $3\frac{1}{3}\%$ of the Transporter's maximum credit limit). In the event of implementation, National Grid will monitor the number and outcome of requests it receives for Independent Assessments and may deem that further UNC Modification is necessary in this area to minimise cost in the provision of credit arrangements.

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 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 V of the UNC.

Proposer's Representative

Chris Warner (National Grid)

Proposer

Phil Lawton (National Grid)

Signature

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