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UNC Modification Proposal 0076
‘Right of set off under Uniform Network Code’

UNC Modification Proposal 0077
‘Notice Period for Code Credit Limit Revision (as a consequence of Credit Rating downgrade) and remedies for non-compliance with a request for provision of additional security.’

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposals.

UNC Modification Proposal 0076 - ‘Right of set off under Uniform Network Code’

National Grid NTS (NG NTS) support this Modification Proposal.

We consider that the Proposal may promote competition among Users by simplifying and improving arrangements for payment of Transportation charges and by keeping banking charges to a minimum.

We note that in its decision letter for UNC0027- ‘Right to Set Off under UNC’, Ofgem rejected the Proposal citing concerns that, *“in practise, the elective nature of the proposal (on the part of Transporters) could result in differing arrangements across networks”*. Ofgem considered that, *“it was not clear whether the potential benefits of these arrangements would outweigh the costs of implementation which are imposed on Users”*. Modification Proposal UNC0076 seeks to introduce the right to set off in an elective manner for both the Users and Transporters. We agree with the Proposer that this approach may be less onerous to Users as they would be able

to elect whether or not to set off with a Transporter. If implemented, the proposed changes may facilitate the right to set off whilst providing sufficient comfort that inappropriate discrimination or barriers to entry are minimised.

UNC Modification Proposal 0077 - ‘Notice Period for Code Credit Limit Revision (as a consequence of Credit Rating downgrade) and remedies for non-compliance with a request for provision of additional security.’

NG NTS supports this Modification Proposal.

We note that in its decision letter for UNC0025 – ‘Notice Period for Code Credit Limit downgrade and remedies for non-compliance’, Ofgem rejected the Proposal. It believed that the proposed penalties enforced on a User that failed to comply with a request to provide additional security within the prescribed timescales; which may result in User default and all monies becoming overdue and payable, were too onerous. Ofgem stated that such changes *“could have the ability to cause the failure of an otherwise credit worthy party”*. Additionally Ofgem expressed the view that there was merit in considering other less extreme remedies which may incentivise the timely provision of security. NG NTS believes that Modification Proposal UNC0077 seeks to address Ofgem’s concerns, in respect of UNC0025, through the proposed introduction of interest charges and administration fees for delays in the provision of security, as opposed to placing such Users into default, which might be viewed as too onerous a course of action in certain circumstances. NG NTS believes that the rates proposed for both the interest and administration charges relating to any delay in the provision of security are consistent with prevailing legislation, (i.e. the Late Payment of Commercial Debt (Interest) Act 1998).

As part of its decision letter for UNC0025 Ofgem also noted that some of the proposed changes were not necessarily in line with recommendations within its ‘best practice guidelines for gas and electricity Network Operator credit cover’ conclusions document. In particular it noted the proposed timescales for the Notice Period. NG NTS notes that Modification Proposal UNC0077 seeks to amend the down grading notice from the prevailing 30-day notice period to a 3-day period. We believe that this reduction in Notice Period enables Transporters to react to any changes in the creditworthiness of Users in a timely manner and that this may in turn reduce any potential risk from financial exposure in the event of default.

We consider that such measures introduce robust procedures and best practice measures that minimise the impact that User failure may have on the industry. We consider that this Proposal, if implemented, may facilitate greater competition between Users as a result of providing greater confidence within the industry in respect of risk mitigation from exposure to Shipper default.

Please let me know if you, or the SME assigned to this Proposal, require any further information to enable preparation of the Final Modification Report.

Yours sincerely

Ritchard Hewitt