

Review Group Report
Review Proposal 0252
Review of Network Operator Credit Arrangements
Version 1

1. Review Proposal

Wales and West Utilities raised Review Proposal 0252, for which the Terms of Reference are on the Joint Office web site at www.gasgovernance.co.uk/0252

2. Review Process

In accordance with the Modification Rules, at its meeting on 22 May 2009, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by the Joint Office and approved by Review Group attendees.

3. Areas Reviewed

The Review Group considered the following topics to ensure the relevant areas were reviewed and recommendations identified:

Topics identified	Section 4 Ref
General review of the current credit arrangements and processes within UNC TPD Sections V3 & V4 to determine if they are still appropriate, coherent and relevant.	All
Unsecured Credit Risk (use of Payment History and Independent Assessments)	4.6, 4.7
Letter of Credit Provider	4.10
Comparison of industry practices (gas and electricity)	4.3, 4.6, 4.7
Implications of changes to Energy Balancing credit arrangements	4.15
Administration charges for late payment (payable to Users)	4.16
Availability and understanding of Bi-lateral Insurance	4.12
Interaction with other industry codes	4.6, 4.7
Timescales and procedures for issuing 'notifications' to Users	4.17
Impact of the implementation of Modification Proposal 0195AV ('Introduction of Enduring NTS Exit Capacity Arrangements' (changes to UNC TPD Section V)	4.5
Impact of other industry code modifications / work groups (including but not limited to: DCP034 ("Credit Cover Arrangements for Small Suppliers") and UNC Review Group 0221 ("Review of Entry Capacity and the Appropriate Allocation of Financial Risk"))	4.3, 4.5, 4.6, 4.7

4. Conclusions and Recommendations

The Review Group considered the topic items listed in section 3 and identified the following recommendations:

4.1 Amendment to UNC TPD Text

During the review of UNC TPD Sections V3 and V4, the Review Group identified a number of drafting errors, inconsistencies and incorrect

references within the documents. The Review Group recommends these errors should be rectified by either a “consent to modify”, bespoke Modification Proposal or during the implementation of one of the other Modification Proposals raised in response to these recommendations (which needs to amend these sections). The errors are listed in a table in Appendix 1.

The Review Group considers a bespoke Modification Proposal as the most suitable method for amending the highlighted drafting errors. See Appendix 7 for details of potential modifications.

4.2 Sections V and S Consistency

The Review Group identified an anomaly between the timing of sanctions in V 3.3.2 (d) and S 3.5.3 and would recommend its investigation and any identified corrective action taken. See Appendix 7 for details of potential modifications.

The Review Group also recommends that further checks be made for any further anomalies in Section S and any conflicts with Section V.

4.3 Provision of Additional Approved Credit Agency

The Review Group considered the provision of Approved Credit Agencies within the existing UNC and compared these provisions to other similar code arrangements and industry best practice. The Review Group recommends increasing the number of existing agencies to include Fitch in addition to the current Moody’s and Standard & Poors as acceptable rating providers.

A draft Modification Proposal has been discussed in the Review Group. The Review Group considers the Proposal should be further developed based on the recommendation above. See Appendix 7 for details of potential modifications.

4.4 VAR Credit Arrangements

The Review Group agreed that a Shipper should be obliged to have in place one or more of the available methods of security or unsecured credit at a level that avoids repeated issuing of 100% VAR notices.

It is recommended a Modification Proposal should be raised to implement this obligation. See Appendix 7 for details of potential modifications.

4.5 Exit Capacity / VAR Credit Arrangements

The Review Group included a review of the impact of the implementation of Modification Proposal 0195AV (*‘Introduction of Enduring NTS Exit Capacity Arrangements’* (changes to UNC TPD Section V) within its Terms of Reference.

Options for amendment have been discussed at the Distribution and Transmission Workstreams in addition to the Review Group.

The Review Group recommends that the reference to DNOs as Users be removed from Section V3.3.4. Some members also considered that references to DNOs as Users should be removed from Sections V3 and V4. See Appendix 7 for details of potential modifications.

4.6 Introduction of a rating table for independent credit rating agencies for use with Independent Assessments

In February 2007 UNC Modification 0113: Availability of Unsecured Credit Based on User Payment Record or Independent Assessment, introduced the ability for Users to obtain an Unsecured Credit Limit based on Independent Assessment for Users without a Moody's or Standard & Poors rating, or for those whose investment grade rating is below the prescribed minimum of Standard & Poors BB- or equivalent. The UNC contains a scoring table to compare different credit agency applicant ratings.

The Review Group discussed the table currently contained within the UNC and concluded that there is currently no clear guidance on the application of the scoring mechanism and that this may lead to Transporters using different methodologies for establishing the Independent Assessment Score, as their interpretation of the Independent Assessment process may be different.

The Review Group discussed potential solutions to this issue, and were made aware that under the electricity Distribution Connection & Use of System Agreement (DCUSA), a recent amendment had been implemented. This amendment introduced a table into the DCUSA, which allows a network operator to translate one of the numerous credit assessment agencies' standard ratings into a 0-10 credit scoring.

The Review Group considered the benefits of adopting DCUSA provisions and also increasing the existing 3 UNC Credit Agencies to 5. It was initially thought that this would then allow the Transporter to choose 3 of the 5 agencies to obtain a credit reference on behalf of the Shipper. However, after further discussion with Ofgem and industry participants, it was concluded that as Gas Transporters only have a relationship with 3 Credit Agencies, it should not be expanded to 5. Though in line with the DCUSA, the User should be able to select its preferred agency for its assessment.

A strawman was developed by National Grid NTS, which outlined alternative options for discussion by the Review Group (see Appendix 2 for further details). A key driver/aspect behind the alternatives was the analysis performed which highlighted that the DCUSA table alone often provides much more credit than would be recommended by the recognised independent credit agencies. In some scenarios this could result in terms which are hundreds of times more generous than the Independent Credit Agency's recommended level.

With this in mind, the Review Group members saw merit in one particular option: Independent Assessment based on DCUSA Table in conjunction with the Commercial Judgement of the Independent Credit Agency - recommended maximum value. If the DCUSA table results in a level of credit that is greater than the maximum recommended by the preferred agency, then the level of credit is to be capped at the level of credit recommended by the agency.

The Review Group considers a Modification Proposal should be developed based on the recommendations above. See Appendix 7 for details of potential modifications.

4.7 Review of Payment History Credit Arrangements

National Grid NTS presented a number of options to the Review Group for the provision of credit based on an applicant's payment history. In summary, these options were

- Option A – UNC ASIS but clarifying current text
- Option B – CUSC Variation
- Option C – Alternate/Wider Payment History Options

See appendix 3 for full details.

The Review Group discussed the options as presented and the issues associated with providing credit based on payment history. One concern raised was that good payment history under UNC, was not always a useful means of gauging if an applicant was fully credit worthy, as they may not be paying other creditors and this would not be visible to the gas transporters.

It was recognised that Independent Assessment was a more rounded approach and included a check of the applicants wider payment history/non UNC related payments. The initial view of the Review Group was that if Independent Assessment was enhanced (see Review Group recommendation 4.6), then the provision of credit based on payment history could be removed. However, following consideration of the views of Ofgem and some small Shippers, it has been proposed that payment history is restricted to new entrants for a maximum of 2 years and with a soft landing to take account of occasional administration errors (comparable with a soft landing provided in CUSC).

The Review Group considers a Modification Proposal should be developed. See Appendix 4.

4.8 Administration of Contact Details

Currently each Transporter and Shipper maintains its own register of contact details for other UNC parties for credit purposes. The Review Group concluded it would be beneficial if parties were encouraged to provide and maintain their contact details. A central coordinating agent such as xoserve could manage this.

The Review Group considers a Modification Proposal should be developed based on the conclusions above. See Appendix 7 for details of potential modifications.

4.9 Ofgem Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover

The Review Group compared the existing best practice document to the current UNC terms and conditions to consider if the intent of the best practice document was followed, or if amendment to the best practice document or UNC was required.

The Review Group concluded the best practice document should be considered a living document and any new initiatives to improve best practice in UNC should not be delayed if these were not specifically envisaged within the best practice document.

4.10 Investment Grade Rating (IGR) Downgrade

It was recommended that a further column should be inserted, in the current UNC table defining the IGR numerically and illustrating downgrade thresholds for various IGRs.

The Review Group considers a Modification Proposal should be developed based on the recommendation above. See Appendix 7 for details of potential modifications.

4.11 Specially Commissioned Ratings (SCRs)

The Review Group considered the inclusion of SCR report provisions within 3.2.5, to allow Transporters to respond to downgrades. However, this suggestion was discarded as such ratings only represent snapshots in time and cannot be monitored or reassessed, without being re-commissioned. The Review Group therefore considered that it would not reflect Best Practice Guidelines and recommended removal of SCRs in the UNC as defined in V3.1.1 (d).

The Review Group considers a Modification Proposal should be developed based on the recommendation above. See Appendix 7 for details of potential modifications.

4.12 Availability and understanding of Bi-lateral Insurance

The Review Group was unable to establish the current existence of this type of insurance product and therefore recommends its removal from the UNC.

The Review Group considers a Modification Proposal should be developed based on the recommendation above. See Appendix 7 for details of potential modifications.

4.13 Termination Threshold Value

The Review Group considered the Termination Threshold Value of £10,000 in Section V4.3.1. The Review Group recommends that the £10,000 value should be removed and replaced with a reference to the limit within the Insolvency Act. A Modification Proposal should be raised to further develop this change. Any anomalies in Section S created by this change should also be addressed. See Appendix 7 for details of potential modifications.

4.14 Definition of Surety and Security

The Review Group identified inconsistencies in the use of these terms within Section V (See Appendix 5). These should be agreed and corrected via a UNC Modification Proposal.

The Review Group considers a Modification Proposal should be developed based on the recommendations above. See Appendix 7 for details of potential modifications.

4.15 Energy Balancing Credit Arrangements

The Review Group did not believe there were any impacts on the Energy Balancing Credit Arrangements within this Report.

4.16 Administration Charges for Late Payments

The Review Group considered the application of administration charges which are currently issued to the creditor regardless of whether the creditor

is the Transporter or the Shipper. Whilst one member of the Review Group questioned whether a Transporter should pay an administration charge for a shipper credit (as in effect it is charging themselves for the administration the Transporter has undertaken to provide the credit) it was identified that the administration charge in such cases reflects the additional costs Shippers will incur to chase the unpaid credit. The Review Group did not recommend any changes in this area.

4.17 Notifications' to Users

The Review Group considered the information provided in Appendix 6 and it was considered that no further action was required.

Appendix 1 – Corrections to UNC

UNC Reference	Current Text	Proposed Change	Reason
Section V3.1.1 (a)	3.1.1 For the purposes of the Code: (a) the “ Regulatory Asset Value ” is the value of the relevant Transporter’s regulated assets as published from time to time by the Authority.	Redefine as only changes every 5 years under current definition	
Section V3.1.3 (d)	A User may increase an Unsecured Credit Limit allocated pursuant to paragraph 3.1.3(a) or paragraph 3.1.4 by an incremental amount (the “ Incremental Amount ”) by providing security (in respect of the Incremental Amount) in the form of a Guarantee from a Security Provider with an Approved Credit Rating subject to:	None. Whilst the wording “with an Approved Credit Rating” is superfluous it impacts on following paragraphs, it should remain.	Action reference RG0252 0010
Section V3.1.4	Subject to 3.1.7, where a User does not have an Approved Credit Rating, or a User’s Approved Credit Rating is less than Ba3 awarded by Moody’s Investment Services or an equivalent rating by Standard and Poor’s Corporation, such User may obtain an Unsecured Credit Limit by:	Delete subject to 3.1.7	Action Reference RG0252 0011
Section V3.2.4 (b)	at the User’s request (but subject to paragraph 3.2);	at the User’s request (but subject to paragraph 3.2.8);	Action Reference RG0252 0016
Section V3.2.4 (d)	where any instrument of surety or security expires or is determined;	Include zero value for surety 30 days prior to expiry.	Action Reference RG0252 0018
Section V3.2.5	Where any of the User or any person providing surety for a User is revised	Insert column in existing table to reflect IGR	Action Reference RG0252 0035

UNC Reference	Current Text	Proposed Change	Reason
	downwards to the extent that the credit rating following such revision is less than BB- (as provided by Standard and Poor's or such equivalent rating by Moody's Investors Service), then such User's Code Credit Limit may be immediately reviewed and revised by the Transporter in accordance with the Code, on notice to the User.	downgrade thresholds.	
Section V3.2.9	Where a User's Code Credit Limit has been revised downwards in accordance with paragraph 3.2.4(c). above, the Transporter will notify the User accordingly on the next Business Day following the occurrence of the event described in paragraph 3.2.4(c).	Should section 3.2.5 be referenced in 3.2.10.	Action Reference RG0252 0020
Section V3.2.10	Where the Transporter requires the User to provide additional security, the notice given in accordance with 3.2.9 shall require that such User shall provide to the Transporter, by no later than 17.00 on the second Business Day following the date of such notice, additional surety or security in a form acceptable to the Transporter for an amount notified by the Transporter, such that when applied it will result in the Value at Risk of the User not exceeding 100% of the Users Code Credit Limit. Subject to paragraph 3.2.11 below, where a User has not provided such additional surety or security by such second Business Day then with effect from the next Business Day following such second Business Day the following shall be payable by the User:	Include reference to 3.2.5	Action Reference RG0252 0020

UNC Reference	Current Text	Proposed Change	Reason
Section V3.2.11	Notwithstanding paragraph 3.2.10, where at any time as a direct consequence of an increase in the relevant Transporter's Transportation Charges, a User's Value at Risk is increased by over 20% from the previous day, a User will have one calendar month from the date of notice given by the relevant Transporter to provide additional surety or security and after the expiry of such date, paragraphs 3.2.10(a) and (b) shall apply.	Delete paragraph & consider replacing with a scenario of extra time when a Shipper portfolio increases significantly e.g. SOLR	Action Reference RG0252 0019
Section V3.3.2	Without prejudice to paragraph V3.3.3, where a User fails to provide such additional security as required in paragraph 3.3.1 (b) by the date specified in the notice pursuant to 3.3.1(b):	Without prejudice to paragraph V 3.3.3, where a User fails to provide such additional security as required in paragraph 3.3.1 (b) by the date specified in the notice pursuant to 3.3.1(b):	Action Reference RG0252 0025
Section V3.3.2 (a)	the amount of such surety or security required shall be increased to that amount required to reduce the User's Value at Risk to below 80% of its code credit limit and any surety or security provided by such User shall be deemed to be valued at 80% of its face value for the following 12 calendar months; and	Remove second 80% test.	Action Reference RG0252 0024
Section V3.3.2 (d)	where from the fifth Business Day after the date specified in the notice, the User's Value at Risk exceeds 100% of the User's Code Credit Limit, the Transporter shall be entitled to reject or refuse to accept a Supply Point Nomination or Supply Point Confirmation under Section G, other than a Supply Point Re-nomination or Supply Point Reconfirmation until such time as the User's Value at Risk is reduced to less than 100% of its Code Credit	Align section V3.3.2 (d) with S3.5.3	Action Reference RG0252 0026

UNC Reference	Current Text	Proposed Change	Reason
	Limit.		
Section V3.4.5	<p>“Bi-lateral Insurance” shall mean an policy of insurance (that is unconditional in order to attain 100% of its face value) for the benefit of the Transporter, provided by a Qualifying Company and in such form as is acceptable to the Transporter; of insurance (that is unconditional in order to attain 100% of its face value) for the benefit of the Transporter, provided by a Qualifying Company and in such form as is acceptable to the Transporter;</p>	<p>Delete definition or replace with a known industry term.</p> <p>If definition is amended correct typo “an policy”.</p>	<p>Action Reference RG0252 0030</p> <p>Action Reference RG0252 0031</p>
Section V3.4.5	<p>“Enforceable” shall mean the Transporter (acting reasonably) is satisfied that the instrument of security is legally enforceable and in this respect, where security is provided by a company registered outside of England and Wales, the country of residence of such company must have a sovereign credit rating of at least A awarded by Moody’s Investors Services or such equivalent rating by Standard and Poor’s Corporation (where such ratings conflict, the lower of the two ratings will be used) and the User shall at its own expense provides such legal opinion as the Transporter may reasonably require;</p>	<p>Amend typo “and the User shall at its own expense provides provide such legal opinion as the Transporter may reasonably require;”</p>	<p>Action Reference RG0252 0032</p>

Appendix 2 – Independent Assessment Strawman (item 4.6)

UNC Review Group 0252 Review of Network Operator Credit Arrangements Unsecured Credit Limits Strawman

1. Introduction

Review Group 0252 (RG0252) was established in July 2009 to allow a review of the existing arrangements within UNC TPD Section V and to take account of other credit related issues that have occurred since the publication of the Best Practice Guidelines (BPG) document.

National Grid has recently been approached by a prospective Gas Shipper regarding the use of an Independent Credit Assessment to determine a level of unsecured credit against Gas Transportation charges. As this is the first such request that National Grid has received since the introduction of this facility within the Uniform Network Code (UNC), we have performed some analysis to inform our response to this request. This has led us to conclude that there is merit in reviewing the associated elements of the BPG relating to Unsecured Credit Limits.

This strawman defines potential options for changing the way Unsecured Credit is allocated as part of an Independent Assessment, which National Grid believes should be discussed further as part of the scope of RG0252:

- Option A – Independent Assessment based on DCUSA Table
- Option B – Independent Assessment based on DCUSA Table + Commercial Judgement based on Independent Credit Agency recommendation

This strawman also provides some thoughts on an alternative option to the above, which looks at a revised means of providing Unsecured Credit to all Users (with or without an Investment Grade Rating) and the following option is put forward for debate:

- Option C – All Users provided with the maximum recommended amount of unsecured credit by the preferred Independent Credit Agency (capped at 2% of a transporters RAV).

2. Independent Assessment

Background

As detailed above, National Grid has recently been approached by a prospective Gas Shipper regarding the use of an Independent Credit Assessment to determine a level of unsecured credit against Gas Transportation charges. This is the first such request that National Grid has received since the introduction of this facility within the Uniform Network Code (UNC). Independent Assessment is currently detailed in UNC TPD Section V 3.1.7 as follows:

- 3.1.7 Upon request from a User, the Transporter will specify a panel of 3 independent credit rating agencies. The User may select any one of such agencies for the Transporter to use to allocate an Unsecured Credit Limit to the User as follows:
- (a) where such User is unable to obtain an Approved Credit Rating (up to a maximum of 20% of the relevant Transporter's Maximum Unsecured Credit Limit); or
 - (b) where such User has an Approved Credit Rating below Ba3 (awarded by Moody's Investment Services or an equivalent rating by Standard and Poor's Corporation) (up to a maximum of 131/3% of the relevant Transporter's Maximum Unsecured Credit Limit). A score of between 0 and 10 will be allocated to the User in accordance with the following table to calculate the User's Unsecured Credit Limit:

Independent Assessment Score	% of Transporter's Maximum Unsecured Credit Limit
10	20
9	19
8	18
7	17
6	16
5	15
4	13 ¹ / ₃
3	10
2	6 ² / ₃
1	3 ¹ / ₃
0	0

Under the arrangements introduced as part of the implementation of UNC modifications 0113 and 0147, upon a User's request, a Transporter shall obtain a credit scoring from an independent credit assessment agency of 0 to 10. This score is then used to calculate the level of credit that it may extend to a User as a proportion of its Regulatory Asset Value (RAV).

The credit assessment agencies that National Grid Gas have contacted regarding this matter have been reluctant to provide a 0-10 scoring without detailed guidance as to what this scale of scoring represents in relation to the relevant party's ability to pay.

Option A – Independent Assessment based on DCUSA Table

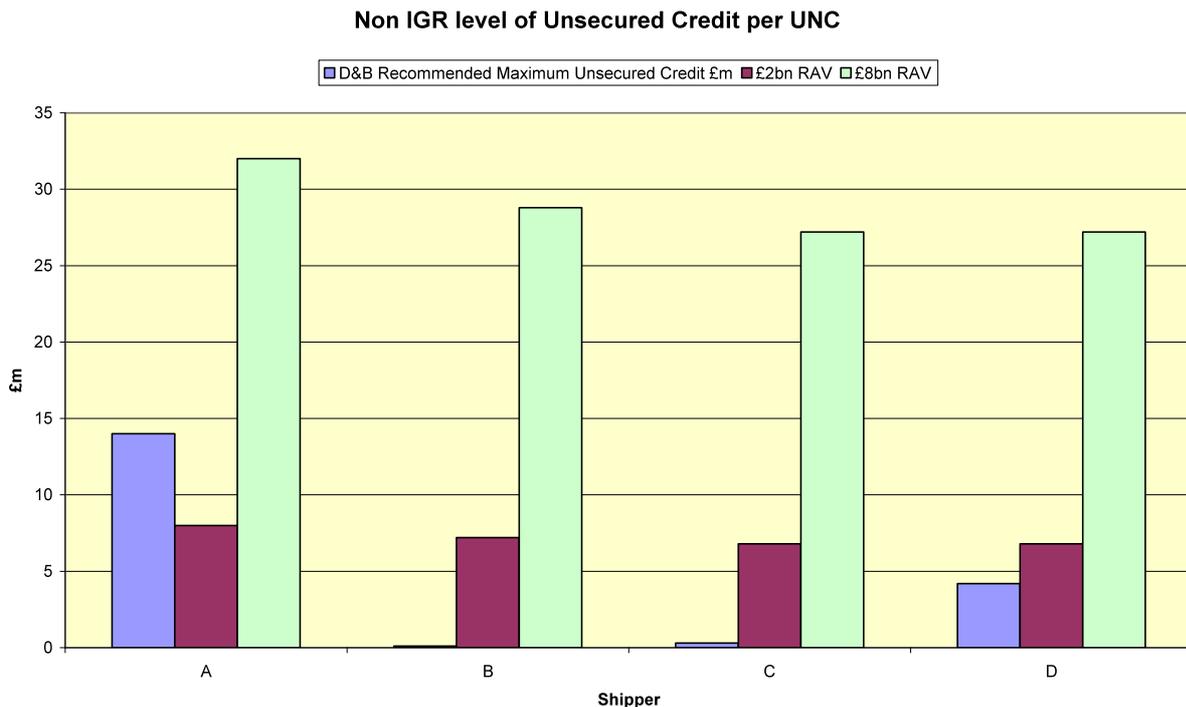
RG0252 has briefly discussed a potential solution to this issue, and have been made aware that under the electricity Distribution Connection & Use of System Agreement (DCUSA), a recent amendment has been implemented. This amendment introduced a table into the DCUSA (see below) which would allow a network operator to translate one of numerous credit assessment agencies' standard ratings into a 0-10 credit scoring.

Table A (replica of DCUSA Schedule 1, 2.8)

<u>Equivalence of the Credit Assessment Score to credit scores provided by Recognised Credit Assessment Agencies in their Independent Credit Assessments.</u>					
<u>Assessment Score</u>	<u>Check It (ICC)</u>	<u>Dunn & Bradstreet / N2 Check</u>	<u>Equifax</u>	<u>Experian</u>	<u>Graydons</u>
	Credit Score Report	Comprehensive Report		Bronze, Silver or Gold Report	Level 1, Level 2, or Level 3 Report
10	95-100	5A1/	A+	95-100	1A
9	90-94	5A2/4A1	A/A-	90-94	1B/2A
8	80-89	5A3/4A2/3A1	B+	80-89	1C/2B/3A
7	70-79	4A3/3A2/2A1	B/B-	70-79	2C/3B/4A
6	60-69	3A3/2A2/1A1	C+	60-69	3C/4B/5A
5	50-59	3A3/1A2/A1	C/C-	50-59	4C/5B/6A
4	40-49	1A3/A2/B1	D+	40-49	5C/6B/7A
3	30-39	A3/B2/C1	D/D-	30-39	6C/7B/8A
2	20-29	B3/C2/D1	E+	20-29	8B
1	10-19	C3/D2/E1	E/E-	10-19	8C
0	Below 10	Below E1	Below E-	Below 10	Below 8C

We have recently undertaken analysis on a small sample of shippers who do not currently have an Investment Grade Rating (IGR). We have calculated the level of credit that would be provided if such shippers ask us to undertake an independent assessment on their behalf. This calculation involves using the Dunn and Bradstreet (D&B) rating against the DCUSA table to identify the independent score and corresponding % of Maximum Unsecured Credit limit. This percentage has then been applied to derive the different levels of Transporter RAV that may be allocated as a result and for this illustration a £2bn (small transporter) and £8bn (large transporter) RAV figure have been used.

The graph shows how the calculated level of credit compares to the maximum level recommended by D&B. See appendix 1 for further details of our analysis.



National Grid suggests that this analysis highlights a number of points worthy of further consideration;

1. The level of credit recommended by the DCUSA table often provides much more credit than that which would be recommended by the recognised independent credit agencies;
2. For smaller Transporters (illustrated by £2bn RAV), basing the level of credit offered to Investment Grade rated Shippers on the Transporter RAV often caps the level of credit offered to below the level recommended by the recognised independent credit agencies; and
3. For larger Transporters (illustrated by £8bn RAV), the RAV is at such a level that most Users would be offered credit terms well in excess of that recommended for both mechanisms (in some scenarios this could result in terms which are 100's times more generous than the Independent Credit Agency's recommended level).

Whilst RG0252 has yet to discuss the issue of independent credit assessments in detail, it has been suggested that the mechanism detailed in the DCUSA could be a suitable solution for UNC. Having carried out our analysis National Grid suggests that although there seems to be some merit in this solution in terms of providing transparency to Shippers, we consider that there are a number of drawbacks which could result in an inappropriate distribution of risk

between code parties if this mechanism was applied without some recognition of the ability of the User to pay.

Option B – Independent Assessment based on DCUSA Table + Commercial Judgement based on Independent Credit Agency recommendation

We believe that the rating agencies featured in the DCUSA table provide ratings based primarily upon the stability of the assessed organisation, not necessarily regarding its size. To bring their ratings back into perspective, they also provide a maximum recommended credit level. We also note that paragraph 3.24 of Ofgem's Best Practice Guidelines for Network Operator Credit Cover considers this when describing the desired process:

The assessment could take the form of a score of 0 to 10 where nought indicates that the company is not suitable for any allowance of unsecured credit. A company rated at 10 could be eligible for up to 20% of the NWO's maximum credit limit. Scores in between could result in allowances which matched the steps of rated companies indicated in the table below. In making this assessment, the agency methodology could consider how the size of the counterparty's portfolio limits its ability to avail itself of the full allowance. As a result the party's equivalence to rated companies could be equitable whilst taking into account the 'absolute' value of 'what a party is good for'.

National Grid suggests that the final two sentences of the above supports an element of commercial judgement being applied to the scoring, to reflect a level of credit which is large enough to cover the amount that the customer would wish to "avail" themselves of but at the same time is also tempered so that the amount of credit made available was reflective of "what the party is good for". As a result of this interpretation, and analysis we do not think that the use of the DCUSA table alone would be the most appropriate way of determining a User's credit allowance as a result of an independent Credit Agency's assessment score.

The following option for undertaking Independent Assessments combines both the DCUSA table (as per option A) and the aforementioned commercial judgement.

- i) Upon a User's request for an independent credit assessment, the Transporter will inform the User of the list of recognised credit reference agencies from which it may select for the Transporter to base its assessment. Each of these will be reputable credit reference agencies that are both professionally recognised and independent from both the Transporter and the User;
- ii) Once the User has nominated its preferred credit reference agency, the Transporter shall obtain a credit assessment report on the User from this agency, and determine an initial scoring based upon the table provided in the DCUSA (subject to UNC section V3.1.7(b));
- iii) If the initial scoring results in a level of credit that is greater than the maximum recommended by the preferred agency, then the Transporter shall adjust the credit score to one that reflects the level of credit recommended by the agency. Where this level falls between the amounts defined by each score, then the nearest score to this would be granted;
- iv) The user will be notified of the scoring within 2 business days of the Transporters receipt of their nomination of a preferred agency; and
- v) The timings surrounding reassessments and the arrangements surrounding the payment for assessments will remain in accordance with the UNC (V3.1.8).

3. Alternate/Wider Unsecured Credit Allocation Options

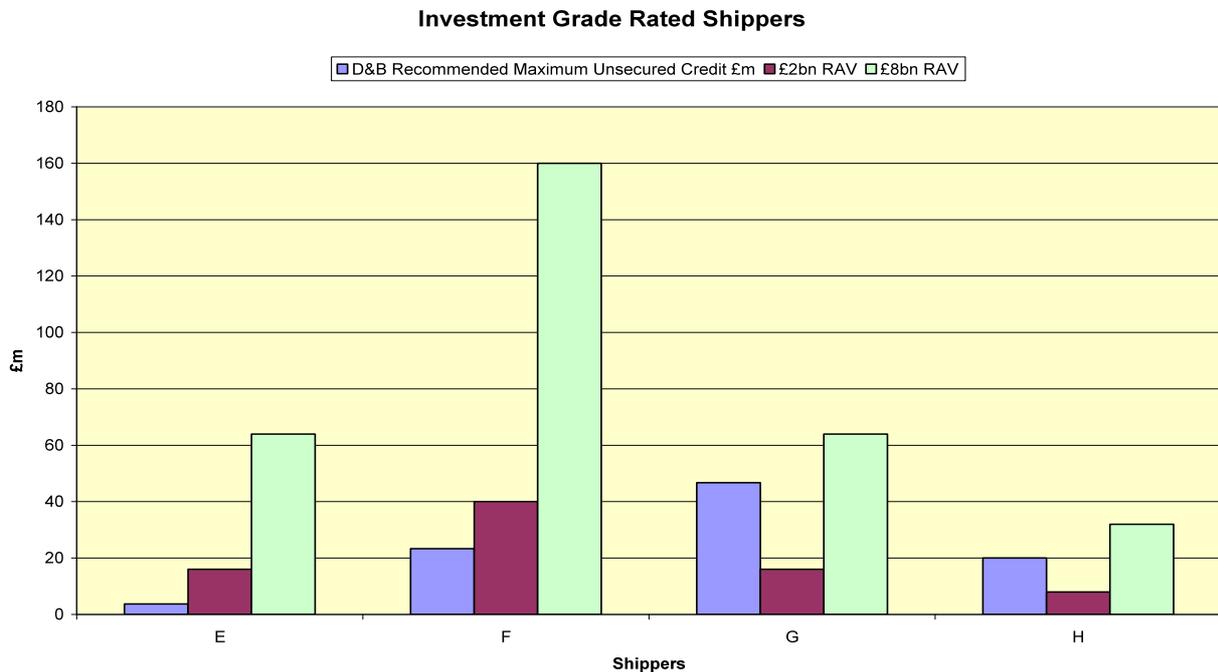
As a consequence of conducting the analysis related to the aforementioned Independent Credit Assessment options, National Grid has considered if there is merit in reviewing how Unsecured Credit Limits should be determined for all Users (with or without an Investment Grade Rating).

The option below has been developed as a means of generating discussion in this area and National Grid acknowledge that there could be other options worthy of evaluation.

Option C – All Users provided with the maximum recommended amount of unsecured credit by the preferred Independent Credit Agency (capped at 2% of a transporters RAV).

Shippers that have an approved credit rating above Ba3 are allocated a Maximum Unsecured Credit Limit in line with the table in V3.1.3a, which allocates 15% to 100% of 2% of transporter’s RAV.

Similar analysis to that provided for non Investment Grade Rated Shippers has also been carried out for a small number of Shippers holding a Moody’s or Standard and Poor’s rating. The graph below shows that these Shippers are also provided with more credit than that recommended by the recognised independent credit agencies. However, the multiples of code credit vs the D&B recommended level are less than that for those Shippers without a credit rating.



For simplicity and equability it is suggested that all Users are provided with the maximum recommended amount of unsecured credit determined by the preferred agency. However in some cases it can be seen that this value is above the level of credit currently determined for a small transporter (based on £2bn RAV illustration). To combat this it is proposed that the level of unsecured credit also be capped at 2% of the relevant transporters RAV.

The aim would be to amend UNC TPD Section V and in particular Section V 3.1.3 and 3.1.7 to reflect this change in methodology. Although further work is required to define the revised text, a brief outline of the steps involved is as follows:

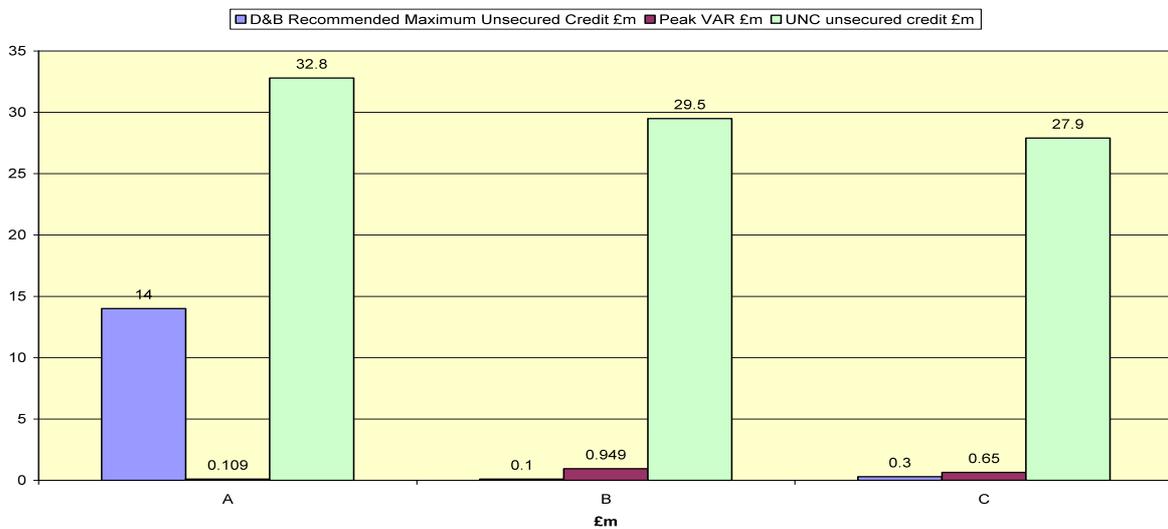
Upon a User’s request for a Code Credit limit, which may comprise of an element of Unsecured Credit, the Unsecured Credit limit will be derived as follows:

- i) The Transporter will inform the User of the list of recognised credit reference agencies from which it may select for the Transporter to base its assessment. Each of these will be reputable credit reference agencies that are both professionally recognised and independent from both the Transporter and the User.

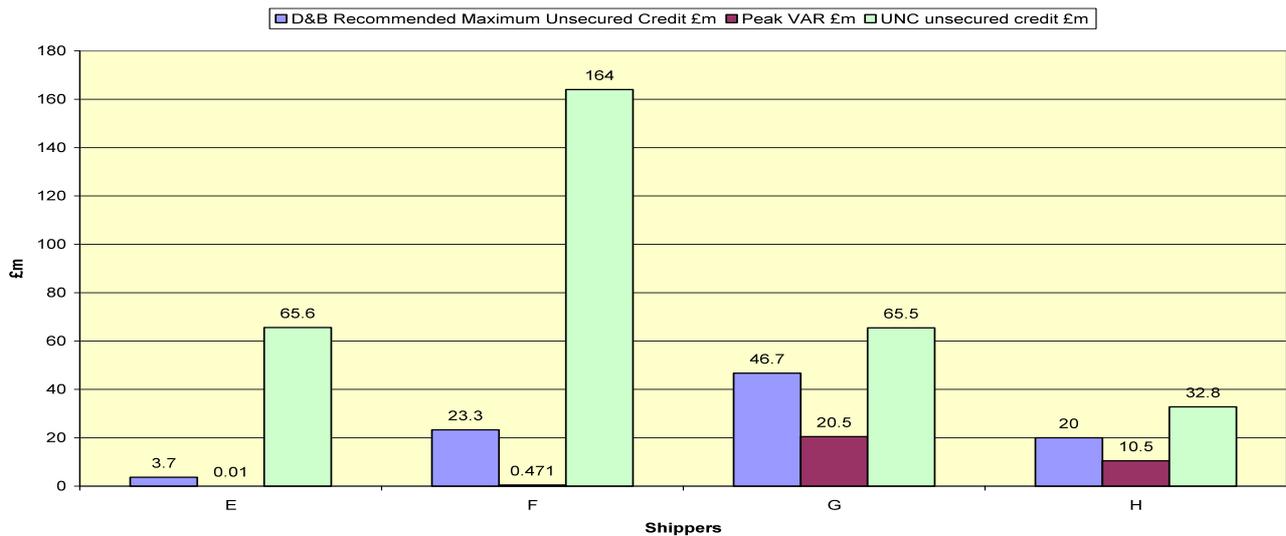
- i) Once the User has nominated its preferred credit reference agency, the Transporter shall obtain a credit assessment report on the User from this agency, which will include a maximum recommended level of credit.
- ii) The User will be allocated the lower of a) maximum recommended level of credit or b) 2% of the relevant transporters RAV.
- iii) The user will be notified of the level of unsecured credit within 2 business days of the Transporters receipt of their nomination of a preferred agency
- vi) The timings surrounding reassessments and the arrangements surrounding the payment for assessments will remain in accordance with the UNC (V3.1.8).

The graphs below show that in most cases the maximum recommended amount of unsecured credit determined by the preferred agency, is more than sufficient to cover the Shippers requirement.

Non IGR Credit and VAR



Investment Grade Rated and VAR



Where this is not the case, the Shipper may, in accordance with V3.4.6, extend its exposure beyond its Unsecured Credit Limit by providing security or surety in the form of:

- Bi-lateral insurance
- Letter of Credit (LoC)
- Guarantee
- Deposit deed
- Prepayment Agreement

It should be noted that Shippers A, B & C used in our analysis, do not currently have access to any Unsecured Credit and rely entirely on security in the form of a LoC or Deposit deed.

Appendix 1 – Unsecured Credit Analysis

User	IGR	D&B Score	Score using DCUSA Table	D&B Recommended Maximum Unsecured Credit £m	%of Transporter's RAV awarded as unsecured credit	Level of Unsecured Credit per UNC £m using the DCUSA table					UNC (DCUSA) Unsecured Credit minus Recommended £m				
						£1bn RAV	£2bn RAV	£3bn RAV	£4bn RAV	£8bn RAV	£1bn RAV	£2bn RAV	£3bn RAV	£4bn RAV	£8bn RAV
A	-	5A1	10	14	0.400%	4.0	8.0	12.0	16.0	32.0	-10.00	-6.00	-2.00	2.00	18.00
B	-	5A3	8	0.1	0.360%	3.6	7.2	10.8	14.4	28.8	3.50	7.10	10.70	14.30	28.70
C	-	2A1	7	0.3	0.340%	3.4	6.8	10.2	13.6	27.2	3.10	6.50	9.90	13.30	26.90
D	-	3A2	7	4.2	0.340%	3.4	6.8	10.2	13.6	27.2	-0.80	2.60	6.00	9.40	23.00
E	A1	5A1	-	3.7	0.800%	8.0	16.0	24.0	32.0	64.0	4.30	12.30	20.30	28.30	60.30
F	Aa3	5A1	-	23.3	2.000%	20.0	40.0	60.0	80.0	160.0	-3.30	16.70	36.70	56.70	136.70
G	A3	5A1	-	46.7	0.800%	8.0	16.0	24.0	32.0	64.0	-38.70	-30.70	-22.70	-14.70	17.30
H	Baa1	4A1	-	20	0.400%	4.0	8.0	12.0	16.0	32.0	-16.00	-12.00	-8.00	-4.00	12.00

Appendix 3 – Payment History Strawman (item 4.7)

UNC Review Group 0252 Review of Network Operator Credit Arrangements Strawman options for discussion on payment history

1. Introduction

Review Group 0252 (RG0252) was established in July 2009 to allow a review of the existing arrangements within UNC TPD Section V and to take account of other credit related issues that have occurred since the publication of the Best Practice Guidelines (BPG) document.

This strawman defines potential options for changing the way Payment History is accrued, which National Grid believes should be discussed further as part of the scope of RG0252:

- Option A – UNC ASIS but clarifying current text
- Option B – CUSC Variation
- Option C - Alternate/Wider Payment History Options

2. Payment History Options

The current UNC Payment History requirements are detailed in V3.1.5 and V3.1.6, these arrangements allow for payment history to be built up over a 5 year period, however when a payment of greater than £250 is late then the accumulated history would be taken back to zero.

Option A – UNC ASIS but clarifying current text

National Grid believes that payment history as detailed in UNC has caused some confusion, for example one User thought credit Payment History only applied after 12 months and it may be worth the Review Group considering if the current text could be clarified to ensure all UNC parties understand how the process works.

UNC (currently)

- 3.1.5 The Transporter may allocate an Unsecured Credit Limit to a User based upon the period of time elapsed that such User has paid all invoices by their due date for payment in accordance with Section S, such that after a calendar month, a User may be allocated an Unsecured Credit Limit on the basis of 0.4% of the relevant Transporter's Maximum Unsecured Credit Limit over a 12 Month period and increasing on an evenly graduated basis each Month up to a maximum of 2% of the relevant Transporter's Maximum Credit Limit after 5 Years.
- 3.1.6 Where a User has been allocated an Unsecured Credit Limit pursuant to 3.1.5 above, and such User subsequently fails to make payment in full of any invoice (other than in respect of Energy Balancing Charges) issued in accordance with Section S:
- a) with a total amount due of £250 or less, then such User's Unsecured Credit Limit shall be reduced by 50% from the date of such payment default; or
 - b) with a total amount due of greater than £250, or where a User fails to make payment on any other occasion within 12 Months of a default as set out in (a) above, then such User's Unsecured Credit Limit shall be reduced to zero from the date of such payment default.

The User's payment history may continue to be used following the date of any payment default as set out above to increase the reduced value of the User's Unsecured Credit Limit in accordance with paragraph 3.1.5 above.

Option B – CUSC Variation

It has been suggested that the current UNC rules (V3.1.6) with regards to reducing the code credit limit (allocated through payment history) to the position of zero for late payment may be considered extreme, particularly if the User has accumulated a considerable period of payment history. It may be worth noting that Ofgem's implementation letter for UNC 0026 'Application of Charges consistent with Late Payment of Commercial Debts (Interest) Act 1998' states:

- *Ofgem is of the opinion that all parties should make arrangements to meet their obligations in a timely manner. Where this does not occur in relation to payment terms, Ofgem believes that a number of remedies, including interest and administration charges, should be applied.such charges should not be extreme or excessive.*

With this in mind, National Grid suggests that the Review Group may wish to discuss the CUSC methodology option which broadly is:

- Case 1 - User pays on time: User's payment history allowance increases (providing all other invoices are paid on the due date in that month) as with the UNC by 0.0006 to a maximum of 2% of 2% of RAV;
- Case 2 - User pays up to (and inc.) 2 days late: User's payment history all remains as it is with no increase (providing all other invoices are paid within 2 days of the due date in that month);
- Case 3 – User pays more than 2 days late: User's payment history allowance decreases. A stepped reduction is carried out under the CUSC, whereby there's a 50% reduction in allowed credit upon the 1st missed payment and a 100% reduction upon the 2nd such late payment within a rolling 12 months.

Under the CUSC model there would still be an advantage for the user paying on time as their code credit limit would increase. There is no minor error threshold (£250) in the CUSC model, the argument for not having the UNC £250 limit is that it is in fact easier to make a 1 digit typo (£100, £1000, £1m, etc.) than it is to make a 2 digit typo (which £250 would be). [Does anyone know the rationale for the £250 amount?]

We believe that a variation on the CUSC model could be adopted into the UNC as follows:

- A User will continue to be allocated an Unsecured Credit Limit on the basis of 0.4% of the relevant Transporter's Maximum Unsecured Credit Limit over a 12 Month period and increasing on an evenly graduated basis each Month up to a maximum of 2% of the relevant Transporter's Maximum Credit Limit after 5 Years.
- The UNC £250 minor error element and reductions in payment history will be removed.
- The following CUSC (like) elements will be adopted instead:
 - The first time a late payment occurs, provided it is no later than [2] days the payment history is retained but no increase in payment history is accrued for that month.
 - The second time a User pays late (no later than [2] days) within a rolling 12 months of the first missed payment then a stepped reduction of 50% is made.
 - The third time a late payment is made (no later than [2] days) within a rolling 12 months of the first missed payment, then a 100% reduction is made.

- With regards to the [2] days 'grace' interest charges and all other sanctions per Section S3.5 would still apply.
- For the avoidance of doubt any payment received after 2 days would result in the payment history reverting to zero.

It is important to note this is a variation on the CUSC model. In the CUSC as long as the User Pays within the 2 days grace period they do not have a reduction on their Payment History Credit limit and the only 'penalty' for late payment within 2 days is the lack of increase in the Payment History credit limit for the following month. This variation introduces a "3 strikes" rule, which we believe is less extreme than the current UNC text.

We would welcome discussion on this option, in particular whether this option is more complex resulting in more operational costs. Views are also sought on the [2] days grace, (as to whether this should be included) and the number of "strikes" (late payments) allowed before the payment history is reduced to zero..

Option C - Alternate/Wider Payment History Options

As a consequence of conducting the analysis related to the aforementioned Payment History options, National Grid consider there is merit in reviewing the principal of Payment History. The drivers behind this view are:

- The use of payment history is a rare event, with only one (National Grid) User currently obtaining an Unsecured Credit Limit via this route.
- Review Group 252 has been looking to improve the transparency and clarity with regards to Independent Assessment. It is our view that this revised process is the most appropriate method to allocate Unsecured Credit to smaller UNC parties.
- The independent Assessment also takes into consideration payment history (both to the GT and other parties) when determining the final score/amount of Unsecured Credit to be provided.

The two options below have been developed as a means of generating discussion in this area and National Grid acknowledge that there could be other options worthy of evaluation.

1. **Remove the option of Payment History from UNC.** As payment history as a credit tool has currently had very limited usage, we do not believe such an action would be to the detriment of Users.
2. **Restrict payment history to new Users only.** If removal of payment history was thought to be a step too far, we believe there is merit in restricting its use to new Users
 - We also believe the **time period** Users can increase their Code Credit limit should also be limited to a fixed period of time [24 months] from start up date. After the end of the [24 months] period the User would provide an alternative credit arrangement such as Independent Assessment.
 - **The amount of code credit cover**
 - a. could be based on the **same basis as now** (0.4% of the relevant Transporter's Maximum Unsecured Credit Limit per 12 Month of payment history). However, as the period has been reduced (from 5 years), the maximum level of Code Credit that could be acquired would be reduced.
 - b. it has been suggested that a simpler approach could be taken where an amount (maximum value/[24]) could be released for every month good payment history is maintained up to a **maximum cash value** [£300,000?]. If a late payment occurs either the current UNC rules or the CUSC principles could apply (see option A & B for details).

- c. If the Review Group determines that linking Unsecured Credit levels to RAV (as per existing provisions) remains appropriate, **reduce the %** that can be accumulated. Currently Users can accrue up to 2% of the maximum level (2% of Transporter's RAV). Consideration could be given to reducing this to [1% or 0.5% etc]? This will reduce the absolute £ risk but will not be a departure from Unsecured Credit linkage to RAV.

Conclusion

National Grid raises these as items for the Review Group to discuss and welcome input and opinions on them.

Appendix 4 – Payment History Modification Proposal (item 4.7)

CODE MODIFICATION PROPOSAL No xxxx

<Title>

Version x.x

Date: 04/03/2010

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (*) when first used.

This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).

Executive Summary

This Modification Proposal* seeks to amend the criteria for credit provided by Payment History in UNC TPDV3.1.5 and V3.1.6 to reflect the recommendations of Review Group 0252 'Review of Network Operator Credit Arrangements' (RG0252).

Background

Review Group 0252 was established in July 2009 to undertake a review of the existing credit arrangements within UNC TPD Section V taking into account other credit related issues that have occurred since the publication of the Ofgem Best Practice Guidelines (BPG) document.

One of the topics discussed by the Review Group was Unsecured Credit risk and in particular the use of Independent Assessments and Payment History in determining the level of Unsecured Credit to be provided to small Users. One concern raised by Review Group attendees was that good payment history under the UNC was not always a useful means of gauging if an applicant was fully credit worthy, as they may not be paying other creditors and this would not be visible to the gas transporters.

The current UNC Payment History requirements are detailed in TPD Sections V3.1.5 and V3.1.6, briefly these arrangements allow for payment history to be built up over a 5 year period, however when a payment of greater than £250 is late then any accumulated history would be reset to zero.

The use of Payment History as a credit tool to date has been a limited event as Users have opted for other credit tools, such as Letter of Credit (LoC), Deposit Deed and Independent Assessment.

It should be noted that an Independent Assessment also contains an

element of payment history; however this is a more rounded approach that includes a wider payment history check taking into consideration payments to the Transporter(s) and other parties, when determining the final score/amount of Unsecured Credit to be provided.

RG0252 discussed several potential options for changing the way Payment History is currently accrued and, given the aforementioned cross over with Independent Assessment, the initial preference was to remove Payment History as a credit tool. However, following consideration of the views of some small Users about the potential impact on competition it was recognised that new entrants may have difficulty obtaining a full Independent Assessment until they have been trading for a period of time.

Consideration was also given to reducing the amount of Payment History that can be accrued from 5 years to 2 years to limit the exposure to the community. However, the Review Group felt that a further step should also be applied, where a User should move to other credit tools once the period of two years expired. This view was provided on the basis that after 2 years the User would have built up sufficient credit history to enable them to undertake an Independent Assessment.

With the above discussions in mind the Review Group recommended that Payment History be retained as a credit tool but that its use is limited to new entrants only with a time limit of a maximum of 2 years from the point they accede to the UNC. After such time the User would need to choose an alternative credit tool and, given that the Review Group have also proposed some enhancements to the Independent Assessment, this mechanism may be the tool of choice. The Review Group believed this approach would provide responsible credit and limit the exposure to the community of a credit default.

The Review Group also compared the gas Payment History processes to the electricity regime (Connection Use of System Code (CUSC)) and it was proposed that the UNC adopt a similar approach to late payments to allow for administration errors. In the current gas regime, if a payment of greater than £250 is late then the accumulated payment history would be reset to zero. In the CUSC a softer landing is applied, where if a payment is received up to and including 2 days after the payment due date then the credit limit would not revert to zero in the first instance.

Nature of the Proposal

It is proposed that TPD Sections V3.1.5 and V3.1.6 should be amended to indicate that Payment History is only available upto the 2 year anniversary date of the User acceding to the UNC. After such time the User* would not be eligible to use this credit tool and would have to choose one of the other credit tools available within TPD Section V, such as Independent Assessment, Deposit Deed, etc.

It is also proposed to amend the aforementioned sections to allow for administration errors:

- Amend 3.1.6 to allow for a payment that is received up to and including 2 days after the payment due date. The Unsecured Credit limit would not increase for the following month and interest would be charged on the late payment.
- However, the Unsecured Credit limit would not be reset to zero in the first instance but if payment was late more than once within a

rolling 12 calendar month period then the credit limit would reset to zero. Interest would also be charged on the second late payment.

This proposal is further illustrated by the following examples:

- Case 1 - User pays on time: User's Unsecured Credit increases (providing all other invoices are paid on the due date in that month) as with the current UNC by 0.0006%. The User will only be permitted to increase their Unsecured Credit level for a period of 2 years from the date they accede to the UNC and as a result the maximum level that can be afforded will be 0.8% of 2% of the relevant gas transporter's Regulatory Asset Value (RAV).
- Case 2 - User pays up to (and inc.) 2 days late: User's Unsecured Credit level remains unchanged and does not increase (providing all other invoices are paid within 2 days of the due date in that month), and interest is charged on the late payment.
- Case 3 – User pays more than 2 days late: User's Unsecured Credit allowance reverts to zero and interest is charged on the late payment.
- Case 4 – User pays up to (and inc.) 2 days late twice within a 12 calendar month rolling period: the Unsecured Credit allowance reverts to zero after the second instance and interest is charged on the late payments.

For the avoidance of doubt it should be noted that all of the credit tools outlined within TPD Section V would be available to the new entrant and it is not proposed to make payment history the only tool available to a new entrant or the default option.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The proposer believes that this proposal is sufficiently clear to proceed directly to consultation

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This Modification Proposal does not affect xoserve systems or procedures and therefore it is not affected by User Pays governance arrangements.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Not applicable

c) Proposed charge(s) for application of Users Pays charges to Shippers

Not applicable

- d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable

- 3 **Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

(d) so far as is consistent with subparagraphs (a) to (c) the securing of effective competition

The proposer believes that limiting payment history to new entrants and restricting usage to 2 years does not prevent such shippers from entering the market place. However, the proposed changes confine the potential exposure/costs that maybe incurred by gas transporters, shippers and ultimately consumers, as a result of a User credit default.

The Proposal retains current credit tools for all new Entrants and in addition introduces some allowance for administration errors which takes into account the new User status. Once the User is established i.e. 2 years post acceding to UNC then the option of Payment History would not be available. However this would promote responsible credit and reduce the risk to the community.

- 4 **The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

Not applicable

- 5 **The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

- a) **The implications for operation of the System:**

Not applicable

- b) **The development and capital cost and operating cost implications:**

There would be a requirement to make minor changes to the Transporters credit monitoring arrangements.

- c) **Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

Not applicable

- d) **The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

Reduced contractual risk to gas transporters through limiting both the circumstances/duration that Payment History can be used to determine

Unsecured Credit and the value that is provided.

- 6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

Not applicable

- 7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

Not applicable

- 8 The implications for Users of implementing the Modification Proposal, including:**

a) The administrative and operational implications (including impact upon manual processes and procedures)

b) The development and capital cost and operating cost implications

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

Removing Payment History credit tool for Users that have acceded to the UNC for longer than 2 years will reduce the risk of pass through to the Shipper Community from a credit default.

- 9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

- 10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

- 11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above**

Advantages

- Reduces risk to the community of pass through from a credit default.
- Introduces a CUSC style 'soft landing' to allow for an administration error.

- Responsible credit provided to new entrants.

Disadvantages

- Removing a form of unsecured credit for a User after 2 years of acceding to UNC.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

The Review Group suggest that the proposal is implemented 3 calendar months after the Authority decision, to allow any User affected, to arrange alternative credit tools.

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V3

Proposer's Representative

Beverley Viney, National Grid NTS

Proposer

Beverley Viney, National Grid NTS

Appendix 5 - Surety and Security Table (item 4.14)

TPD Section V3 & V4

Paragraph	"Security"	"Surety"	"Surety and Security"	Review Group Comments	Suggested action
3.1.1 (d)			X		No action needed
3.1.3 (b)	X			Deals with Security Providers	Should read surety & define as 'Surety Provider'
3.1.3 (c)	X			Deals with Security Providers	Should read surety & define as 'Surety Provider'
3.1.3 (d)	X			Deals with Security Providers	Should read surety & define as 'Surety Provider'
3.2.1 (a)	X			Within the definition of Code Credit Limit	Should read 'security or surety'
3.2.4 (c)		X		When a person providing "surety" is revised downwards...	No action needed
3.2.4 (d)			X	Revision of Users Code Credit Limit (expiry of Surety or Security)	No action needed
3.2.5		X		When published credit rating is revised downwards...	No action needed
3.2.10	X			Additional security required under a notice issued by the transporter	Should read 'security or surety'
3.2.10			X	As above and appears to be inconsistent	No action needed

3.2.10 (a)			X	As above	No action needed
3.2.10 (a) (table)	X			Within the table in 3.2.10(a)	Should read 'security or surety'
3.2.10 (b)				" "	Should read 'security or surety'
3.2.11			X	paragraph about 20% increase in charges	No action needed
3.3.1 (b)			X	notice when VAR exceeds 100%	No action needed
3.3.2	X			Appears to be inconsistent with 3.3.1	Should read 'security or surety'
3.3.2 (a)			X	Inconsistent with 3.3.2	No action needed
3.3.2 (b)			X	Inconsistent with 3.3.2	No action needed
3.4	X			Section title "Security under Code"	Should read 'security or surety'
3.4.1			X	treatment of surety and security under code	No action needed
3.4.2			X	treatment of surety and security under code	No action needed
3.4.2	X	X		referred to separately but possibly for good reason...	No action needed
3.4.3	X	X		referred to separately but possibly for good reason (same as 3.4.2)	No action needed
3.4.4	X	X		referred to separately but possibly for good reason (same as 3.4.2)	No action needed
3.4.4			X	ok	No action needed
3.4.5			X	within the definition of Deposit Deed	Should read Security

3.4.5	X			Within the definition of Enforceable	Should read 'security or surety'
3.4.6			X	additional tools for extending exposure beyond UCL.	No action needed
3.4.6 (e)			X	when a instrument is conditional...	No action needed

Appendix 6 – Notifications’ to Users (item 4.17)

UNC Section	Notice Details	Notice period	EBCC	Transportation	Issue?
	Notices that could lead to a Termination Notice being issued				
Section X	<i>User exceeds 85% Cash Call Limit. Notice to Pay Cash Call issued</i>	2 Business Days	Yes		
Section X	Failure to Pay Cash Call Notice	2 Business Days	Yes		
Section X	Failure to supply further security Notice	1 Business Day	Yes		
V3.3.1 (a)	<i>VAR exceeds 80% of Code Credit Limit</i>	No time period		Yes	
V3.3.1 (b)	VAR exceeds 100% Code Credit Limit – User required to provide additional surety or security	2 Business Day		Yes	
V4.3.1 (c) (iv)	<i>Material Breach of UNC – a) breach is not remedied after the issue of notice or a programme for remedy is not provided</i>	14 Days	Yes	Yes	
V4.3.1 (c) (vi))	Material Breach of UNC – b) breach is unremedied after provision of a further notice to remedy the breach	7 Days	Yes	Yes	
V 4.3.1(e)	User is Unable to Pay Debts / Insolvent	N/A	Yes	Yes	
V3.3.3/V4.3	Termination Notice	N/A	Yes	Yes	

UNC Section	Notice Details	Notice period	EBCC	Transportation	Issue?
	Other Notices				
V3.2.4	Reviewed/revised (downwards) Code Credit Limit due to Users request, surety/security expiring	Not less than 30 days		Yes	
V3.2.9 - V3.2.10	Revision (downwards) of Code Credit Limits due to change in User's (or any person providing surety for the User) published or Specially Commissioned rating (V3.2.4 (c))	2 Business Days		Yes	
V3.2.11	VAR increased by >20% due to an increase in transportation charges	1 Calendar month		Yes	
<i>Notices in Italics precede a Notice that may lead to Termination.</i>					

Appendix 7 – Potential Modification Proposals.

The following modification topics were considered and responsibility for their review for future development assigned to organisations:

1. Corrections to UNC (tweaks / inaccuracies) - V3.1.4 (reference to 3.1.7 removal) - V3.2.4 (reference correction 3.2.8) - V3.2.4 to include zero value for surety 30 days prior to expiry - V3.2.9/10 include reference to 3.2.5 - V3.2.11 Remove existing 20% paragraph and redraft intent of BPG - V3.3.2 remove "V" from reference - V3.3.2(a) Remove second 80% test - V3.4.5 Removal of "Bilateral Insurance" - V3.4.5 correct minor typo in definition "Enforceable" (provide(s)). *To be raised by Wales and West Utilities.*
2. V3.3.2(d) Align V3.3.2(d) with S3.5.3 (portfolio sanctions timeline). *To be raised by Wales and West Utilities.*
3. V3.2.5 insertion of column in table to reflect IGR downgrade thresholds. *To be included with item 6.*
4. V3.1.1(d) Removal of Specially Commissioned Ratings. *To be raised by Northern Gas Networks.*
5. V3.1.1(a) Definition of RAV. *To be raised by Wales and West Utilities.*
6. Adding Fitch to UNC. *To be raised by Northern Gas Networks.*
7. Obligation to provide security (and at a 'reasonable' level). *To be raised by Wales and West Utilities.*
8. Removal of DNO User from V3.3.4. *To be raised by Wales and West Utilities and Scotia Gas Networks/SGN.*
9. Removal of DNOs from V3 & V4 (alternative to above). *To be raised by Wales and West Utilities and Scotia Gas Networks.*
10. Independent Assessments. *To be raised by Northern Gas Networks.*
11. Payment History. *To be raised by National Grid NTS.*
12. Administration of Contact Details. *To be raised by Scotia Gas Networks.*
13. V4.3.1 Review of the £10k termination threshold. *To be raised by Scotia Gas Networks.*
14. Use of terms 'security' and 'surety'. *To be raised by Wales and West Utilities.*