










| UNC Workgroup Report | | At what stage is this document in the process? |
|--|--|---|
| <h1>UNC 0713S:</h1> <h2>Amendments to TPD V3.1.7</h2> <h3>Independent Assessment table</h3> | | <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> |
| <p>Purpose of Modification: This Modification makes changes to a UNC mapping table to reflect changes to the way Graydon determines credit ratings.</p> | | |
|  | <p>The Workgroup recommends that this modification should be subject to self-governance</p> <p>The Panel will consider this Workgroup Report on 19 March 2020. The Panel will consider the recommendations and determine the appropriate next steps.</p> | |
|  | High Impact: | |
|  | Medium Impact: | |
|  | <p>Low Impact:</p> <p>Shippers that use Graydon's independent assessment for transportation credit, Transporters</p> | |

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| Timetable | |  0121 288 2107 |
| Modification Timetable | | Proposer: Richard Pomroy |
| Initial consideration by Workgroup | 23 January 2020 |  enquiries@gasgovernance.co.uk |
| Workgroup Report presented to Panel | 19 March 2020 |  Richard.Pomroy@wutilities.co.uk |
| Draft Modification Report issued for consultation | 19 March 2020 |  029 2027 8552 or 07812 973337 |
| Consultation Close-out for representations | 02 April 2020 | Transporter: Wales & West Utilities |
| Final Modification Report available for Panel | 08 April 2020 |  Richard.Pomroy@wutilities.co.uk |
| Modification Panel decision | 16 April 2020 |  029 2027 8552 or 07812 973337 |
| | | Systems Provider: Xoserve |
| | |  UKLink@xoserve.com |
| | | Other: n/a |

1 Summary

What

The table in UNC Transportation Principal Document (TPD) V 3.1.7 (which shows how to calculate a User's Unsecured Credit Limit) needs to be updated to reflect changes in the credit ratings issued by Graydon.

UNC TPD V can be found here: [UNC Transportation Principal Document, Section V](#)

Why

If this change is not made, then new Shippers will not be able to use Graydon for an independent assessment for obtaining credit. Existing Shippers will also not be able to use Graydon if their circumstances change.

How

The solution proposed populates the table with the new credit ratings now issued by Graydon.

2 Governance

Justification for Self-Governance

Panel determined the Modification:

- (i) is unlikely to have a material effect on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; and
- (ii) is unlikely to discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators.

Although this Modification will have a positive effect on competition by making the Graydon rating fit for use again, the changes proposed will not affect those Shippers who currently use Graydon, so the effect is not material. It is unlikely to discriminate between Shippers because it reinstates Graydon as a useable option for independent assessment.

Modification 0713 will therefore follow self-governance procedures.

Following discussion, firstly as a pre-modification, and subsequently in a proposal specific workgroup, participants present agree that the proposal should be subject to self-governance.

Requested Next Steps

This modification should:

- be considered a non-material change and subject to self-governance

The suggested consultation period could be reduced to 10 Business Days from the standard 15 Business Days because this Modification is not expected to impact any Shippers that use Graydon's ratings. Should any issues be raised at workgroup Panel can consider consulting for the standard 15 Business Days.

3 Why Change?

Graydon have changed their methodology for producing credit ratings and have introduced a new table of ratings. These ratings are 'alpha' ratings as opposed to the previous 'alpha numeric' ratings. This means that the Uniform Network Code needs to be amended to replace the old ratings with the new ratings.

The Proposer is also making a small minor change to the wording on Dunn and Bradstreet scoring for the lower ratings to improve clarity. This change is being made because the current wording referring to a rating being below a certain letter does not really make sense in the context of an alpha-numeric system.

This will impact the small number of Shippers that use Graydon for independent assessment. If this change is not made the option of using Graydon for independent assessment will not be available and will limit the options for Shippers to two agencies.

4 Code Specific Matters

Reference Documents

[UNC Transportation Principal Document, Section V](#)

Knowledge/Skills

Familiarity with Code credit arrangements.

5 Solution

Amend text in TPD V 3.1.7 as shown below.

| Independent Assessment Score | Equivalent of the Independent Assessment Score to credit scores provided by the independent credit rating agencies for Independent Assessments | | | % of Transporter's Maximum Unsecured Credit Limit |
|------------------------------|--|--|--|---|
| | Dunn & Bradstreet/ N2 Check Comprehensive Report | Experian Bronze, Silver or Gold Report | Graydon Level 1, Level 2 or Level 3 Report | |
| 10 | 5A1 | 95-100 | 4A AAA | 20 |
| 9 | 5A2/4A1 | 90-94 | 4B/2A AA | 19 |
| 8 | 5A3/4A2/3A1 | 80-89 | 4C/2B/3A A | 18 |
| 7 | 4A3/3A2/2A1 | 70-79 | 2C/3B/4A BBB | 17 |

| | | | | |
|---|---|----------|--|-------------------|
| 6 | 3A3/2A2/1A1 | 60-69 | 3C/4B/5A BB | 16 |
| 5 | 2A3/1A2/A1 | 50-59 | 4C/5B/6A B | 15 |
| 4 | 1A3/A2/B1 | 40-49 | 5C/6B/7A CCC | 13 ^{1/3} |
| 3 | A3/B2/C1 | 30-39 | 6C/7B/8A CC | 10 |
| 2 | B3/C2/D1 | 20-29 | 8B C | 6 ^{2/3} |
| 1 | C3/D2/E1 | 10-19 | 8C Not in use | 3 ^{1/3} |
| 0 | Below E1 E2 to Z inclusive | Below 10 | Below 8C D to Z inclusive | 0 |

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Consumer Impacts

The changes should not affect any Shipper's credit and hence there should be no consumer impacts.

Cross Code Impacts

Not directly, although the IGT UNC and DCUSA may want to consider a similar change if Graydon is used for independent assessment.

The workgroup noted the existence of IGT Modification Proposal, (MP), 132, entitled 'Introduction of IGT Code Credit Rules' and enquired if this was in fact a corresponding proposal dealing with the same issue in the IGT UNC. The Workgroup was advised this was not the case and IGT MP 132 was not raised solely to address the changes to the Graydon credit scoring system.

EU Code Impacts

None

Central Systems Impacts

No impact.

Workgroup Impact Assessment

In order to produce the amended table, the proposer has taken the new alpha-only credit rating scores, issued by Graydon UK Ltd, and matched them, as closely as is reasonably practicable, to the values used in the discontinued alpha-numeric scoring system. The matched values have now been inserted into the table and, going forward, would be used to determine the level of Unsecured Credit available from a transporter.

The statement issued by Graydon to the effect that there was no absolute correlation between the new scoring system and the old scoring system was noted that by workgroup participants, and consequently it was accepted that a simple transposition of the top 9 Graydon scores into the rating table was a fair & acceptable approach.

At the March Workgroup, one participant provided some empirical evidence in relation to the equivalence of the new and old scoring system and which showed minor differences between the two systems. However, it was also noted that the presence of a “lower of” rule in TPD Section V3.1.7 offered a mechanism for resolving any such discrepancies.

Workgroup also agree that the minor correction to the Dunn & Bradstreet column was an appropriate amendment.

Rough Order of Magnitude (ROM) Assessment

This activity is managed by each transporter’s credit risk management department and, as such, has no impact on central system. The CDSP would not be involved in implementation of this Modification and, consequently, no ROM has been requested.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

| Relevant Objective | Identified impact |
|--|-------------------|
| a) Efficient and economic operation of the pipe-line system. | None |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | None |
| c) Efficient discharge of the licensee's obligations. | None |
| d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Positive |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | None |
| f) Promotion of efficiency in the implementation and administration of the Code. | Positive |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |

This Modification furthers the following Relevant Objectives:

(f), by replacing Graydon's out of date scoring system with the new system, the approved range of credit scoring providers recognised by UNC will contain credit scoring systems consistent with those provided by the listed companies. Consistency across the market and the UNC aids administration.

(d), by restoring the third option for independent assessment of credit ratings for Shippers this ensures there are no less routes to Unsecured Credit than there would be should this proposal not be implemented, thereby providing the three approved routes to credit, available to all Users, enhancing opportunities to compete.

8 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

9 Legal Text

Text Commentary

The table is updated for the new Graydon ratings and a minor wording change for Dunn and Bradstreet.

Text

Replace the table in TPD V 3.1.7 with the table below

| Independent Assessment Score | Equivalent of the Independent Assessment Score to credit scores provided by the independent credit rating agencies for Independent Assessments | | | % of Transporter's Maximum Unsecured Credit Limit |
|------------------------------|--|--|--|---|
| | Dunn & Bradstreet/ N2 Check Comprehensive Report | Experian Bronze, Silver or Gold Report | Graydon Level 1, Level 2 or Level 3 Report | |
| 10 | 5A1 | 95-100 | AAA | 20 |
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| 8 | 5A3/4A2/3A1 | 80-89 | A | 18 |
| 7 | 4A3/3A2/2A1 | 70-79 | BBB | 17 |
| 6 | 3A3/2A2/1A1 | 60-69 | BB | 16 |
| 5 | 2A3/1A2/A1 | 50-59 | B | 15 |
| 4 | 1A3/A2/B1 | 40-49 | CCC | 13 ^{1/3} |
| 3 | A3/B2/C1 | 30-39 | CC | 10 |
| 2 | B3/C2/D1 | 20-29 | C | 6 ^{2/3} |
| 1 | C3/D2/E1 | 10-19 | Not in use | 3 ^{1/3} |
| 0 | E2 to Z inclusive | Below 10 | D to Z inclusive | 0 |

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that this self-governance modification should proceed to consultation.