

## **TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0598**

"Revision of Notice Period in the Event of a Users Credit Rating being Downgraded"

Version 1.0

**Date:** 18/10/2002

**Proposed Implementation Date:**

**Urgency:** Urgent

### **Justification**

The current network code provides, that under certain circumstances, Transco may review a Users Secured Credit Limit (energy balancing debt) and a Users Code Credit Limit (transportation debt), and require, by way of notice, the User to revise its credit security following the thirty day notice period. The 30 day notice period can be reduced by agreement with User .

One such circumstance that would result in a User's energy balancing Secured Credit Limit being reviewed, and potentially revised, would be a downward revision of a User's credit rating or of its guarantor. Similarly, for transportation, a review of a User's Code Credit Limit would be triggered by the reduction of any credit rating of the user or any person providing surety for the user.

Should such a downward revision occur, by removing Transco's requirement to provide a minimum of thirty days, it would be able to react rapidly to a User's change in financial circumstances and protect itself and other User's from any default. The commercial flexibility to manage credit security efficiently should reduce the exposure of Users and Transco to financial loss.

It is also proposed that the Urgent Modification Procedure is adopted since recent events have shown that contractual restrictions preventing prudent commercial actions by Transco could adversely affect revenue recovery and should be revised. Failure to do so could have a significant financial impact on Users and Transco alike.

### **Nature of Proposal**

It is proposed that the provisions of Modification 0521 ("Where a guarantor is downgraded to any speculative rating, removal of the notice period required for the revision of a users secured credit limit and code credit limit"), implemented on 15th March 2002, are extended to give Transco the right to issue notice of an immediate revision to a User's credit security should there be any downward revision of a credit rating, either published or privately obtained, of the user, guarantor or any other security provider. (Unlike Modification 0521, the revision would not be dependant on whether the revised rating remained of investment grade.)

Additionally, Transco seeks the right to review, and if appropriate, require the User to revise immediately, its level of credit security in the event it is necessary to make a demand on any existing instrument of security provided by the User.

Consequently, in both circumstances described above, rather than waiting for 30 days for the remedial measures to take effect, Transco would be able review, and require the User to take action immediately following a revision of its Secured Credit Limit or Code Credit Limit.

### **Purpose of Proposal**

The purpose of the proposal is to allow Transco to vary a User's Secured Credit Limit and / or its Code Credit Limit in response to what may be rapidly changing financial circumstances. The ability to respond promptly, and invoke escalatory actions, would reduce risk for all parties concerned and, therefore, could be expected to facilitate a more competitive environment for shippers to operate.

### **Consequence of not making this change**

Should this proposal not be implemented, the potential remains that during the existing 30 day notice period, Transco is unable to take remedial action to cover any potential shortfall between a User's credit cover and their liabilities. The magnitude of the exposure for Transco and remaining Users would be dependent on nature of the failed User's portfolio.

### **Area of Network Code Concerned**

Section V3.2.4 and X2.2.6

### **Proposer's Representative**

Alan G Raper (Transco)

### **Proposer**

Steve R Phillips (Transco)

### **Signature**

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