

Representation For.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."

Version 1.0

Date of Communication: 17/05/2006
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Slant: For

Abstract

Please find detailed below a copy of SGN's response to the above modification proposal.

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.

Thank you for providing SGN with the opportunity to comment on the above modification proposal.

SGN fully supports the above proposal. The proposal has been raised in direct response to the Ofgem conclusions document - best practice guidelines for electricity and gas network operator credit cover, dated February 2005. In that document Ofgem set out a number of requirements which Transporters are required to comply with. We believe this proposal is entirely consistent with these requirements.

The key elements of Ofgem's determinations which are relevant to this proposal are that:

- "Upon any change in credit rating or significant market event, a NWO should revise the unsecured credit limit made available to the counterparty on one working days notice, with the change being effected immediately following the expiry of that notice"
- Where reassessment of a party's credit rating leads to a revision in its unsecured credit limit and a requirement for it to post additional security
- Ofgem determined that " the applicable period for the provision of such additional security should be two business days".
- If a party presents aggregate VAR in excess of 100% of the sum of its unsecured credit limit and the agreed value of any security posted, they should on the following business day be given notice requiring provision of additional security....". Such additional security must "be provided within two business days following the date of notice".
- The amount of additional security required must be "sufficient to bring unsecured VAR down to 80 per cent of the counterparty's credit allowance..."
- Where a counterparty doesn't comply with a request to provide security and is therefore in "default" table 3.52 of the document set out steps that could be

taken, including the application of interest and an administration fee, and suspension of registration of transfers. Timescales are also set out.

Whilst this proposal represents a significant tightening compared to existing arrangements we believe they are entirely consistent with Ofgem best practice guidelines. We believe implementation is necessary to ensure the UNC is aligned with such guidelines in order to give them full effect. In this way it will provide much needed clarity and ensure efficient implementation of the UNC. In relation to relevant objectives, we believe the proposal will help secure effective competition, providing clarity and ensuring a level playing field for all participants. Whilst it might increase costs for some Users, we believe this has to be balanced against the added protection for Transporters and Shippers. We believe arrangements should help reduce the likelihood of User default.

SGN does not believe there are any significant issues regarding implementation. We believe changes could be made to operational processes and procedures within the one calendar month proposed.

We hope these comments are helpful.

Regards

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