

Draft Modification Report
Clarification of Aggregation of Credit Positions using a Guarantee from a Security
Provider
Modification Reference Number 0190
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Modification Proposal 0148 (“Aggregation of Credit Positions or Use of Group Ratings”), which was implemented on 23 October 2007, introduced to the Uniform Network Code (UNC) recommendations contained within the Ofgem conclusions document “Best practice guidelines for gas and electricity network operator credit cover (58/05)” (“The Guidelines”).

Pursuant to recommendations contained within the conclusions document Users may aggregate their credit positions or use group ratings (for example Parent Company Guarantees (PCGs)) provided that the arrangements are robust and unconditional.

Modification Proposal 0148 stated that a PCG may be used in one of two ways:

- the unsecured credit limit assigned to the User would be based on the credit strength of the parent guarantor. Thus for example, a BB rated User guaranteed by an A rated parent would obtain an unsecured limit equal to 40 per cent of the relevant Transporter’s maximum credit limit. Where more than one User obtains credit from a single PCG, the aggregate counterparty credit limits (obtained via that PCG) shall not exceed the credit entitlement of the parent.
- As a guarantee for an amount in addition to an Unsecured Credit Limit assigned to the User based on its stand alone credit rating. In such a case, the additional amount secured by the parent must not exceed the parent company’s ability to bear risk and must take into account the extent to which other Users are secured by the parent under the UNC.

UNC Transportation Principal Document (TPD) Section V 3.1.6 was amended by the implementation of Modification Proposal 0148 to include the above provisions.

In the Proposer’s view, UNC TPD Section V 3.1.6 does not give sufficient clarity on the use of a Guarantee in addition to a User’s own maximum Unsecured Credit.

The Proposer also believes that the current scope of the provisions within UNC TPD Section V 3.1.6 does not fully reflect The Guidelines in this respect as it does not specifically allow for use of a Guarantee in addition to a User’s own maximum Unsecured Credit based on payment history or independent assessment.

This Proposal seeks to clarify the provisions contained within UNC TPD Section V 3.1.6 to include the use of a Guarantee provided by a Security Provider in addition to an Unsecured Credit Limit based on the Users own Approved Credit Rating, payment history or independent assessment.

Suggested Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION V - GENERAL

Amend paragraphs 3.1.6 (a), (b) and (c) and replace text at paragraph 3.1.6 (d) to read as follows:

“3.1.6

- (a) Where a User has an Approved Credit Rating, such User’s Unsecured Credit Limit at any time shall be calculated as that percentage (%) of the Maximum Unsecured Credit Limit by reference to the User’s Approved Credit Rating as follows:

<i>Approved Credit Rating</i>		<i>User’s % of Maximum Unsecured Credit Limit</i>
Standard and Poor’s	Moody’s Investors Service	
AAA/AA	Aaa/Aa	100
A	A	40
BBB+	Baa1	20
BBB	Baa2	19
BBB-	Baa3	18
BB+	Ba1	17
BB	Ba2	16
BB-	Ba3	15

- (b) Subject to paragraph 3.1.6 (c), where a Qualifying Company or Parent Company provides security ~~to~~ in respect of a User in the form of a Guarantee ~~pursuant to paragraph 3.4.5~~ (the “**Security Provider**”), then the Approved Credit Rating of such Security Provider may be used in place of the User’s to calculate such User’s Unsecured Credit Limit in accordance with the table set out in paragraph 3.1.6(a)
- (c) Where a Security Provider provides security pursuant to paragraph 3.1.6(b) or paragraph 3.1.6(d) for more than one User, the aggregate ~~Unsecured Credit Limits of such Users security provided by the Security Provider~~ shall not exceed the maximum credit entitlement of the Security Provider calculated in accordance with the table set out in paragraph 3.1.6(a)
- (d) A User may increase an Unsecured Credit Limit allocated pursuant to paragraph 3.1.6(a) or paragraph 3.1.7 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:
- (i) such Approved Credit Rating being sufficient to cover the Incremental Amount as calculated in accordance with the table set out in paragraph 3.1.6(a); and
 - (ii) paragraph 3.1.6(c).

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;*

Implementation of consistent credit processes which move towards recognised best practice will help ensure that there is no inappropriate discrimination and no inappropriate barrier to entry. This measure facilitates the securing of effective competition between relevant shippers.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and

administration of the network code and/or the uniform network code;

Implementation of this Proposal will add clarity to UNC TPD Section V in respect of the use of a Guarantee in addition to a User's own maximum Unsecured Credit. This will therefore promote greater efficiency in the administration of the UNC.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications on security of supply or operation of the Total System have been identified.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

No implications for operation of the system have been identified.

b) Development and capital cost and operating cost implications:

There are no development and capital cost or operating cost implications associated with implementation of this Proposal

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No cost recovery mechanism is required

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences has been identified

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequences has been identified

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

There are no development, or other, implications for Transporter or Users systems

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified

Development and capital cost and operating cost implications

No such costs have been identified

Consequence for the level of contractual risk of Users

No such consequences have been identified

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No such implications have been identified for any other relevant persons

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Alignment of UNC with The Guidelines

Disadvantages

None identified

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Written Representations are now sought in respect of this Draft Report.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works has been identified as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

This Modification Proposal can be implemented immediately (following the necessary Ofgem direction)

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
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