

CODE MODIFICATION PROPOSAL No. 0147
Administration of Unsecured Credit Afforded on the basis of Payment History and
Independent Assessment
Version 1.0

Date: 04/05/2007

Proposed Implementation Date: 01/09/2007

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

UNC Modification 0113 'Availability of Unsecured Credit Based on User Payment Record or Independent Assessment' was implemented with effect from 1 May 2007.

It is proposed that the UNC is further modified to reflect the following:

Unsecured Credit Obtained by Payment History

In accordance with provisions introduced by Modification 0113, where a User is afforded unsecured credit on the basis of its payment history (UNC TPD Section V3.1.8) and subsequently a payment is not made in respect of a Transportation invoice by the Invoice Due Date, the level of a User's Unsecured Credit Limit afforded as above will be deemed to be zero (UNC TPD V3.1.9).

It is proposed that in order to minimise the risk of a User endangering its unsecured credit limit obtained on the above basis due to failure to pay an invoice of comparatively low value, the UNC is modified to reflect the following:

Where a User fails to pay in full a Transportation invoice and the amount unpaid and outstanding is £250 or less, any Unsecured Credit afforded on the basis of payment history will be reduced by 50% on the first such occasion within a twelve month period. Any subsequent failure to pay a Transportation Invoice (in full) of any value within that twelve month period will reduce the Unsecured Credit afforded on the basis of Payment History to zero.

For the purposes of clarification, failure to pay a Transportation invoice with an amount outstanding in excess of £250 will reduce any Unsecured Credit afforded on the basis of Payment History to zero.

Unsecured Credit Obtained by Independent Assessment – Re-Assessments

In accordance with provisions introduced by Modification 0113, where a User is afforded Unsecured Credit on the basis of an Independent Assessment and any additional re-assessments are required (other than the initial assessment and an annual review), the User shall meet the full cost of such re-assessment (regardless of which party requires the re-assessment).

It is proposed that where such a re-assessment is initiated by the Transporter, the Transporter will meet the full cost of such re-assessment.

For the purposes of clarification, where such a re-assessment is initiated by the User, the User will meet the full cost of such re-assessment.

Unsecured Credit Obtained by Independent Assessment – Agencies

In accordance with provisions introduced by Modification 0113, where a User is afforded Unsecured Credit on the basis of an Independent Assessment the Transporter may appoint one of a panel of three independent credit rating agencies to provide a credit rating for a User.

It is proposed that this provision is amended to reflect that the Transporter in these circumstances selects three independent credit rating agencies, one of which the User is subsequently required to specify as the agency from which it requires the Transporter to procure the appropriate credit rating.

If this Proposal is not implemented, UNC will not reflect the recommendations contained within the Ofgem conclusions document and Transporters will not be obliged to operate this aspect of their credit arrangements in a consistent manner.

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

N/A

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.

This Modification Proposal has been developed within the Uniform Network Code (UNC) Distribution Workstream. General consensus on its objectives was forthcoming. ‘Proceed to consultation’ is therefore requested.

2 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

Implementation of consistent credit processes which move towards recognised best practice would 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.

3 The implications of implementing this 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. Incorporating elements of credit rules within the UNC may help to

reduce the impacts of any industry fragmentation.

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

a) The implications for operation of the System:

No implications for operation of the system have been identified.

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

The proposer has identified that it would incur negligible costs of making minor amendments to the operational processes and procedures to be introduced following implementation of UNC Modification 0113 (1 May 2007).

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:

No cost recovery mechanism is proposed.

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

Payment History

A Transporter would only be able to reduce a User's unsecured credit limit by 50% if the relevant outstanding amount is £250 or less whereas the provisions introduced by Modification 0113 determine that in such an occurrence the unsecured credit limit is reduced by 100%.

Independent Assessment

A Transporter would be exposed to the full cost of any additional re-assessments it initiates (other than the initial assessment and an annual review) whereas the provisions introduced by Modification 0113 determine that in such cases the costs are met by the relevant User.

5 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)

Implementation is not required for such.

6 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

No UK Link systems implications have been identified.

7 The implications for Users of implementing the Modification Proposal, including:

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

When obtaining unsecured credit via an independent assessment a User will be required to 'nominate' one of the three agencies specified by the Transporter.

b) The development and capital cost and operating cost implications

Payment History

The potential cost (in terms of those associated with the provision of credit security) to a User of not paying a small value invoice by the due date will be reduced.

Independent Assessments

The User will no longer be liable for the costs associated with re-assessments initiated by Transporters (other than the initial assessment and an annual review).

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

The contractual risk of losing unsecured credit on the basis of payment history will be reduced where the User fails to pay a low value invoice by the due date.

8 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)

A User may deem it appropriate to reflect any operational cost efficiencies in the level of charges it levies to its suppliers which may subsequently be reflected in the level of charges a supplier levies to its customers.

Dependent on the contractual arrangements in place between the respective parties, bad debt costs which are reflected in subsequent Transportation Charges may be borne in part or in full by Suppliers and subsequently consumers.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

Where a Transporter secures pass through of any bad debt it incurs and demonstrates that a delay in recovery would have a material adverse effect on its financial position, Ofgem clarified in its Best Practice Guidelines that it may

consider early licence modifications such that amounts can be recovered prior to the next price control period.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

- Alignment with Best Practice Guidelines
- For Users this reduces the adverse implications for missed payments where there is a reliance on payment history for unsecured credit.
- For Users this reduces the potential cost burden associated with independent assessments.

Disadvantages

- For Transporters this increases the potential cost burden associated with independent assessments (but this is only the Transporter that can initiate such a re-assessment).

11 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)

No representations have been invited at this stage.

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

No such representations have been received.

13 Any other matter the Proposer considers needs to be addressed

No such additional matters (related with this proposal) have been identified.

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

In light of the limited works required to implement, the Proposer believes that this Modification Proposal could be implemented with immediate effect upon direction being received from the Authority.

15 Comments on Suggested Text

None.

16 Suggested Text

TPD SECTION V: GENERAL

Amend paragraph 3.1.9 to read as follows:

3.1.9 Where a User has been allocated an Unsecured Credit Limit pursuant to 3.1.8 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 3.1.8 above.

Amend paragraph 3.1.10 to read as follows:

3.1.10 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	13½
3	10
2	6⅔
1	3⅓
0	0

3.1.11 Any Unsecured Credit Limit allocated in accordance with paragraph 3.1.10 shall be reviewed annually. Where any costs are incurred by the Transporter in providing an Unsecured Credit Limit in accordance with paragraph 3.1.10, including any annual reviews, the User shall pay to the Transporter 20% of such costs incurred. All reassessments in addition to those mentioned above shall be paid for by the party requesting them.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V

Proposer's Representative

Phil Lucas (National Grid)

Proposer

Chris Warner (National Grid)