

## Implementation of Ofgem Recommended Credit Arrangements in the Uniform Network Code

Modification Number	Modification Title	Summary	Proposer	Outcome	Reason For Authority Decision
0031	Re-assessment of User Unsecured Credit Limits	<ul style="list-style-type: none"> <li>&gt; Max unsecured credit limit based on 2% of DN's RAV</li> <li>&gt; Percentages of that max afforded to Users based on credit ratings from AAA to BB-</li> </ul>	Npower	Implemented on 20 Jan 2006	"...of the three proposals, 031 strikes the best balance between protection against risk and the costs associated with that protection".
0034	Netting off of Payments and Credits relating to Transportation Charges	<ul style="list-style-type: none"> <li>&gt; Mandatory net off of credit and debit amounts within individual Invoice types</li> <li>&gt; User and Transporter able to agree not to net off.</li> </ul>	British Gas Trading	Implemented on 14 Dec 2005	"the proposal would ensure consistent application of pragmatic administratively efficient arrangements".
0076	Right of set off under Uniform Network Code	<ul style="list-style-type: none"> <li>&gt; Transporters ability to elect to set off invoiced amounts across different Transportation Invoice types.</li> <li>&gt; Subject to User agreement or User breach of payment terms (i.e. late payment).</li> </ul>	National Grid Distribution	Implemented on 1 Sep 2006	"...requiring agreement of the User (under normal circumstances) before activation of the code's set off provisions constitutes a further safeguard to ensure the use of these provisions only where they are beneficial to both parties."
0024	Independent security provision by an entity with an Investment Grade Rating of 'A' or above	<ul style="list-style-type: none"> <li>&gt; Third party security provider must have IGR rating of A or above</li> <li>&gt; Security must be enforceable in UK</li> </ul>	National Grid Distribution	Implemented on 1 Dec 2005	"the proposal would allow Users to operate in a more transparent and secure environment"
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	<ul style="list-style-type: none"> <li>&gt; Timescale amended to reflect Ofgem recommendation.</li> <li>&gt; Event trigger amended to be dependent on Code Credit Limit utilisation (and not the Relevant Code Indebtedness as a proportion of the Code Credit Limit)</li> <li>&gt; Did not include provisions deeming User in default for failure to provide further security.</li> </ul>	National Grid Distribution	Implemented on 1 Sep 2006	"...reduction from 30 days to 3 days, although a significant shortening of the timeframe provided under the UNC, will ensure that where additional collateral is required it is provided in a timely fashion. This will help protect both Transporters and Users from the risks of bad debt associated with Shipper default"
0026	Application of Charges Consistent with Late Payment of Commercial Debts (Interest) Act 1998	<ul style="list-style-type: none"> <li>&gt; Increase in interest charged on late paid debt from Barclays+3% to BoE+8%</li> <li>&gt; Ability for Transporters to charge administration fee for late payment.</li> </ul>	National Grid Distribution	Implemented on 1 Feb 2006	"Ofgem agrees with the view that Users have the ability to avoid these by ensuring that bills are paid on time. Moreover, by prompting timely payment, such arrangements could reduce the amount of administrative action required by Transporters to pursue overdue amounts, thereby better facilitating the efficient and economic operation of the pipe-line system".
0144A (alternative to 0144) 0144AV (variation of 0144A)	Quantification of Value At Risk (VAR) to determine a User's minimum Code Credit Limit Requirement	<ul style="list-style-type: none"> <li>&gt; The VAR at any one point in time is deemed to be: <ul style="list-style-type: none"> <li>• The aggregate amount of Transportation Charges invoiced to the User but remaining unpaid (irrespective of whether such amount has become due for payment); plus</li> <li>• The average daily rate of the aggregate amount of Transportation Charges invoiced to the User in the previous calendar month</li> </ul> </li> </ul>	Wales & West Utilities	Implemented on 1 Feb 2008	"Ofgem recognises that UNC144AV has the potential to offer a more stable credit regime than UNC144, and also exposes Transporters to less risk. It does this by providing that the amount to be secured in addition to the billed but unpaid charges in the previous month should be based on a proportion of the actual charges invoiced rather than only those billed but remaining unpaid. To do otherwise could lead to some parties needing to post no or minimal credit. We consider that this would, in general, mean that such Shippers would be inappropriately under-secured."

Modification Number	Modification Title	Summary	Proposer	Outcome	Reason For Authority Decision
		multiplied by 20.			
0146	Acceptable Security Tools available to Users for Transportation Credit Arrangements	> Formalises the security tools acceptable to the transporter. > Includes bi-lateral insurance.	National Grid Distribution	Implemented on 23 Oct 2007	"...We agree that the standardisation and codification within the UNC of the tools through which a User's credit exposure can be secured should assist in lowering barriers to market entry."
0145	Management of Users Approaching and Exceeding Code Credit Limit	> New trigger for sanctions at 100% of Value at Risk (compared to Code Credit Limit) > Interest and administration charges applied.	National Grid Distribution	Implemented on 1 Feb 2008	"Many respondents have commented that preventing Transporters from taking more remedial actions at the 80% stage, to stop a User's VaR breaching 100% of its CCL increases the contractual risk on the Transporter and potentially on the rest of the User community in the event of a subsequent User failure. Given the relative predictability of transportation debt, Ofgem considers this increase in risk is not outweighed by the benefit of reduced costs associated with Users having to otherwise over collateralise."
0148	Aggregation of Credit Positions or Use of Group Ratings	> Specifies determination and conditions of use for Parent Company Guarantees and group ratings.	National Grid Distribution	Implemented on 23 Oct 2007	Ofgem considers that such arrangements could facilitate competition amongst Users provided appropriate attendant safeguards are in place in a robust and unconditional manner...safeguards outlined above are sufficiently robust to ensure that the risk taken on by the credit support provider should not be greater than any risk it itself would be able to incur."
0190	Clarification of Aggregation of Credit Positions using a Guarantee from a Security Provider	> allows a User to enhance the overall credit rating in a manner that is incremental to the User's existing unsecured credit limit	Wales & West Utilities	Implemented on 16 Jun 2008	"... we did have some concern that the use of a Guarantee, particularly from a parent should not create a situation where the overall level of risk is greater than the corporate group together is able to bare...this proposal introduces sufficient safeguards in to the process to ensure that this should not occur. The Authority considers this correctly limits the total credit risk "
0113	Availability of Unsecured Credit Based on User Payment Record or Independent Assessment	> Affords credit based on timely settlement of invoices or independent credit assessment. > Entitlement under payment record reduced to zero following any missed payment.	National Grid Distribution	Implemented on 1 May 2007	"...we consider that overall UNC113 better facilitates the achievement of the Relevant UNC Objectives."
0147	Administration of Unsecured Credit Afforded on the basis of Payment History and Independent Assessment	> Refines process aspects of independent assessments > For payment record allowance, introduces soft landing where small payments (<£250) are missed – reduces allowance by 50%. > Any further missed payments within 12 months reduces the allowance to zero.	National Grid Distribution	Implemented on 11 Sep 2007	"We agree that the refinements suggested by this modification would facilitate relevant objective (d) and be a move towards best practice."
0191V	Discontinuance of Code Credit Rules	Removal of UNC reference to Code Credit Rules	Wales & West Utilities	Implemented on 6 May 2008	"As a series of ...modifications which incorporate the key provisions relating to credit cover have now been implemented, we agree with those...who suggested that removing the...references to the Code Credit Rules will reduce the risk of potential inconsistency of interpretation of the provisions related to credit cover."