

CODE MODIFICATION PROPOSAL No xxxx
Introduction of a rating table for independent credit rating agencies for use with
Independent Assessments
Version x.x

Date: 14/10/2009

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

In February 2007 UNC Modification 0113: Availability of Unsecured Credit Based on User Payment Record or Independent Assessment introduced the ability of Users to obtain Unsecured Credit Limit based on Independent Assessment for Users without a Moody's or Standard & Poors rating, or for those whose rating is below the prescribed minimum of BB- or equivalent. This was one of a series of modifications which sought to align UNC with Ofgem's recommendations contained within the "*Best practice guidelines for gas and electricity network operator credit cover*" 58/05 published in February 2005.

This modification introduced a scoring mechanism whereby Users could obtain between 3 1/3 % and 20% of the Transporter's Maximum Unsecured Credit Limit. A table prescribing the amount within this range based on a scoring mechanism of one to ten, with ten being the highest level was introduced into UNC section V3.1.7.

Ofgem's letter directing implementation of this proposal considered that this would "*help to reduce barriers to market entry, and also reduce the potential for discrimination within the market*".

Proposal

As part of Review Group 0252: Review of Network Operator Credit Arrangements, discussion on how to apply the table currently contained within UNC have concluded that there is no clear guidance on the application of the scoring mechanism and that this may lead to Transporters using different methodologies for establishing the Independent Assessment Score based on interpretation of the Independent Assessment.

This modification seeks to provide clarity to Users on how the application of a rating provided by an independent credit rating agency would correspond with the table currently contained within UNC section V3.1.7.

In February 2009, Ofgem directed a change to the Distribution Connection and Use of System Agreement (DCUSA) (DCP034) which introduced

similar Independent Assessment arrangements for obtaining a Credit Assessment Score from an Approved Credit Referencing Agency to determine the Credit Assessment Factor (CAF). The Credit Assessment Score in DCUSA is the equivalent of the Independent Assessment Score contained within the UNC table and the DCUSA CAF (%) is the equivalent of the % of Transporter’s Maximum Unsecured Credit Limit in UNC.

DCP034, however, introduces a mapping table between the Credit Assessment Score and the established credit scores used by five Recognised Credit Assessment Agencies, providing clarity to Users on the how the application of an Independent Assessment will be applied to generate their CAF, and ultimately their maximum Unsecured Credit Limit.

This proposal seeks to implement the table already approved by Ofgem for use in DCUSA into UNC to add clarity on the application of Independent Assessment Scores. The table is shown below:

Independent Assessment Score	Equivalent of the Independent Assessment Score to credit scores provided by independent credit rating agencies for Independent Assessments				
	Check It (ICC)	Dunn & Bradstreet/ N2 Check	Equifax	Experian	Graydons
	Score Credit Report	Comprehensive Report		Bronze, Silver or Gold Report	Level 1, Level 2, or Level 3 Report
10	95-100	5A1	A+	95-100	1A
9	90-94	5A2/4A1	A/A-	90-94	1B/2A
8	80-89	5A3/4A2/3A1	B+	80-89	1C/2B/3A
7	70-79	4A3/3A2/2A1	B/B-	70-79	2C/3B/4A
6	60-69	3A3/2A2/1A1	C+	60-69	3C/4B/5A
5	50-59	2A3/1A2/A1	C/C-	50-59	4C/5B/6A
4	40-49	1A3/A2/B1	D+	40-49	5C/6B/7A
3	30-39	A3/B2/C1	D/D-	30-39	6C/7B/8A
2	20-29	B3/C2/D1	E+	20-29	8B
1	10-19	C3/D2/E1	E/E-	10-19	8C
0	Below 10	Below E1	Below E-	Below 10	Below 8C

This will ensure that a consistent approach is taken by the Transporters in deriving the Independent Assessment Score and thereby improving the access to unsecured credit by Users and new market entrants.

This modification is also consistent with the DCUSA arrangements and would therefore provide a more consistent and stable operating environment to Users of more than one code.

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

Urgency is not sought on this matter.

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.

Modification should move to consultation

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

User Pays arrangements are not applicable

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Not applicable

c) Proposed charge(s) for application of Users Pays charges to Shippers

Not applicable

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

Not applicable

3 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

The proposer believes that implementation of consistent and clear arrangements to be used when undertaking Independent Assessments will help to ensure that there is no inappropriate discrimination and will help to reduce barriers to market entry. This will inevitably facilitate effective competition (Standard Special Condition A11.1 (d)).

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

No implications have been identified

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

a) The implications for operation of the System:

No implications have been identified

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

None identified

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:

Not applicable

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

None identified

6 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)

No such implications have been identified

7 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 such implications have been identified

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

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

Clarity of application of UNC will improve administrative arrangements and facilitate competition

b) The development and capital cost and operating cost implications

None identified

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

None identified

9 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)

None identified

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

None identified

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

Advantages

- Clarity on the application of existing arrangements will ensure a consistent approach is taken by Transporters.
- Use of readily available “off the shelf” credit reports would be more efficient and cost effective than instructing bespoke reports.

Disadvantages

- None identified

12 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)

None received

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

None received

14 Any other matter the Proposer considers needs to be addressed

No other matters have been identified

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

Implementation could be with immediate effect on instruction from the Authority

16 Comments on Suggested Text

17 Suggested Text

[to follow]

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V3.1.7

Proposer's Representative

Joanna Ferguson (Northern Gas Networks)

Proposer

Joanna Ferguson (Northern Gas Networks)