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*Promoting choice and value for  
all gas and electricity customers*

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Dear Colleague

**Decision on deferment of implementation of UNC305 and decision on urgency for UNC360**

This letter sets out the Authority's reasons for:

- (1) agreeing to a delay in the implementation of UNC modification 305: 'Unsecured Credit Limit allocated through payment history' ('UNC305') from 7 February 2011 to 1 July 2011; and,
- (2) declining urgency for UNC modification proposal 360: 'Removal of Credit Rating Restrictions from Definition of Parent Company' ('UNC360').

UNC305's implementation date was cited as the imminent date related event in First Utility's request that its modification proposal UNC360 follow urgent procedures.

Given our agreement to the Gas Transporters' request for a change in implementation date for UNC305, we do not consider UNC360 meets our criteria for granting urgent status. We therefore decline that request. This does not prevent the proposal from proceeding as drafted through the normal modification procedures.

**Background**

On 5 November 2010 the Authority directed the implementation of UNC305<sup>1</sup>. Amongst other things, the effect of this modification is to limit a shipper's ability to rely on payment history alone as a basis for their unsecured credit limit to two years from their accession to the UNC. After two years any unsecured credit must be based on the shipper's credit rating. Where they do not have an existing credit rating, a report from an independent credit assessment agency may be commissioned. UNC305 was due to be implemented with effect 7 February 2011.

On 1 February 2011 modification proposal UNC360 was submitted to the Joint Office. This proposal seeks to amend the definition of "Parent Company", removing the requirement for the parent to hold a long term debt rating of at least BB- and thereby allowing a wider range of companies to utilise a parental company guarantee as a means of providing surety. The proposer sought urgent status on the basis that they considered the implementation of UNC305 would otherwise have an adverse impact upon a number of smaller shippers.

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<sup>1</sup> See: [www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=341&refer=Licensing/GasCodes/UNC/Mods](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=341&refer=Licensing/GasCodes/UNC/Mods)

The UNC Modification Panel considered UNC360 at an ad hoc meeting on 3 February 2011 and by a majority agreed that it should follow urgent procedures. The decision on whether a modification should be granted urgent status and thereby deviate from the normal modification procedures is a matter for the Authority, in accordance with the GT licence<sup>2</sup>.

Following the UNC Panel meeting, the Gas Transporters sought the Authority's agreement<sup>3</sup> to defer the implementation of UNC305. They considered that this was appropriate to allow shippers additional time to ensure appropriate credit arrangements as permitted by UNC are in place; and to enable a more thorough consideration of any UNC modification proposal such as UNC360, as necessary.

### **Reasons for the Authority's decisions**

The implementation of UNC305 may impact upon the credit arrangements of smaller shippers in particular. We agree that a delay in the implementation on UNC305 will allow time for smaller parties in particular to fully assess the impacts of UNC305 and meet the necessary requirements. It will also give more time to explore the recently raised concerns.

We are disappointed that this course of action is necessary. The Code Governance Review (CGR) recognised and sought to address the difficulties of smaller parties in engaging with the industry code modification procedures and keeping abreast of industry developments. Whilst some smaller parties did respond to the consultations, it appears that the independent credit assessments required under UNC305 may have only recently been undertaken, with the results of those assessments causing smaller parties concern rather than the implementation of UNC305 as such.

We consider that this decision to delay the implementation of UNC305 is unique to these specific circumstances and sets no precedent for the implementation of any future proposal.

Yours Sincerely

**Mark Cox**  
**Associate Partner, Industry Codes and Licensing**

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<sup>2</sup> Amended Standard Special Condition A11, paragraph 9) g)

<sup>3</sup> in accordance with UNC modification rule 9.7.3