

DRAFT CODE MODIFICATION PROPOSAL No. xxxx
"Management of Users Approaching and exceeding Upper Limits of Credit Limit"
Version 0.4

Date: 16/08/06

Proposed Implementation Date:

Urgency: Non-urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

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.

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

Nature and Purpose of Proposal (including consequence of non implementation)

In respect of transportation credit arrangements, Ofgem published a number of recommendations in its conclusions document "*Best practice guidelines for gas and electricity network operator credit cover*" 58/05 in February 2005.

Pursuant to recommendations contained within the conclusions document it is proposed that where a User's indebtedness reaches [80%] of the value of the credit limit in place, the Transporters issue a warning notice to the User which would not be accompanied by calls for additional security or the disconnection of existing customers and/or inhibiting the registration of new customers)¹. It is proposed to remove the current notice requirements at 70% and 85% credit limit usage.

It is proposed that the current measures available for Transporters (pursuant to UNC TPD section V3.3.2) are only available where indebtedness exceeds 100% of its credit limit.

The measures being the entitlement for the Transporter to reject:

- *an application for System Capacity or increased System Capacity,*
- *a System Capacity Trade, or*
- *a Supply Point Nomination or Confirmation (subject to the following proposed provisions).*

It is further proposed that where a User's indebtedness exceeds 100% of the value of the credit limit in place, the User be required (by a notice issued to the User on the following Business Day) to provide additional security within two Business Days of the date of the notice. The value of this additional security would be required to be sufficient to reduce the User's indebtedness to 80% of the credit limit; this maximum indebtedness level of 80% would be required to be in place for a period of 12 months².

¹ Ofgem Conclusions Document (58/05) para 3.46

² Ofgem Conclusions Document (58/05) paras 3.50 – 3.53

It is further proposed to incorporate within the UNC provisions concerning remedies for instances where a User fails to provide additional security (where VAR exceeds the value of the credit limit) following a notice issued by the Transporter. Where such additional security is not forthcoming the Transporter would claim liquidated damages in line with the Late Payment of Commercial Debts (Interest) Act 1998 based on the value of the additional security outstanding².

The above sanctions will be applied in accordance with the following timetable:

Number of Business Days after expiry of notice	Action
0	Expiry of notice (2 business days following date of issue)
1	Liquidated damages trigger (in line with Late Payment of Commercial Debts (Interest) Act 1998). Transporter issues statement of position to User and confirms how default is to be remedied.
3	Formal User response required
5	Sanction available to Transporter to suspend registration of Supply Points (Supply Point Nomination and Confirmation)

Where a User's indebtedness subsequently exceeds 80% (additional security having been initially lodged) within the 12 months identified above, liquidated damages would be claimed for the duration that indebtedness exceeds 80% (up to a maximum of 12 months following the date of the initial notice).

It is further proposed that where a User experiences a material change to its level of trade (detected via monthly assessment of the Value at Risk) a notice period of one month will be allowed for the User to post any additional security required³. A 'material change' will be a change of +[20]% or greater from the previous month.

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.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

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.

² Ofgem Conclusions Document (58/05) paras 3.50 – 3.53

³ Ofgem Conclusions Document (58/05) para 3.47

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested legal text Code Concerned, sections and paragraphs

UNC Section V

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Signature

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