

## Modification Proposal 0111 “Management of Users Approaching and exceeding Code Credit Limit” Replacement Proposal

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### Nature and Purpose of Proposal

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 Value at Risk (VAR) reaches 80% of the value of the its Code Credit Limit (CCL), the Transporter issues 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). Whilst the conclusions document advocated that this notice is issued at 85%, National Grid Distribution believes that implementation efficiencies for Transporters can be achieved if this notice is issued at 80%. This level of indebtedness is a key point in other aspects of the proposed credit arrangements and given that no sanctions are applied at this level (it merely being a notice) this would not appear to be a significant deviation from the conclusions document. It is proposed to remove the current notice requirements at 70% and 85% Relevant Code Indebtedness.

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It is proposed that the current measures available for Transporters (pursuant to UNC TPD section V3.3.2) are only available where a User’s VAR exceeds 100% of its CCL. 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).

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It is further proposed that where a User’s VAR exceeds 100% of the value of the CCL 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 sufficient to reduce the User’s VAR below 100% of the CCL. Where the additional security is provided after the two business days identified above, the value of this additional security would be required to be sufficient to reduce the User’s VAR to 80% of the CCL. For the following 12 month period, the value of the security in place will be deemed to be 80% of its normal value.

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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 CCL) 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 outstanding.

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)

It is further proposed that where a User experiences a material change to its level of trade (detected via monitoring of the User's VAR) as a consequence of an increase in the relevant Transporter's transportation charges, a notice period of one month will be allowed for the User to post any additional security required. A 'material change' will be an increase in the User's VAR of 20% or greater from the previous day.

UNC Transportation Principal Document Section V3.3.3 currently entitles the Transporter to give Termination Notice where Relevant Code Indebtedness exceeds 100% of the User's Code Credit Limit. It is further proposed to amend this provision to reflect that this entitlement alternatively applies where a User's Value at Risk exceeds 100% of the User's Code Credit Limit.

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.

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