

Modification Proposal 0112 “Aggregation of Credit Positions or Use of Group Ratings” Replacement Proposal

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 Users may aggregate their credit positions or use group ratings (for example Parent Company Guarantees (PCGs)) providing that the arrangements are robust and unconditional. The conditions for the acceptance of such are:

- The credit support provider must offer a guarantee which is legally enforceable in the UK. Guarantors based outside the UK may be required to provide legal opinion of enforceability,
- The guarantor entity will be subject to the same credit scoring process as the buyer, and must also be willing to provide information to facilitate the completion of this process; and
- The country of residence of the guarantor must have a sovereign credit rating of at least A2 awarded by Moody’s Investors Service, (or equivalent rating by Standard & Poor’s). If the rating agencies differ, the lower rating will apply.
- The minimum acceptable rating is Ba3 awarded by Moody’s Investors Service (or equivalent rating by Standard & Poor’s). If the rating agencies differ, the lower rating will apply.

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The PCG may be used in one of two ways:

- the unsecured credit limit assigned to the User would be based on the credit strength of the parent guarantor. Thus for example, a BB rated User, guaranteed by an A rated parent would obtain an unsecured limit equal to 40 per cent of the relevant Transporter’s maximum credit limit. Where more than one User obtains credit from a single PCG, the aggregate counterparty credit limits (obtained via that PCG) shall not exceed the credit entitlement of the parent.
- As a guarantee for an amount in addition to an Unsecured Credit Limit assigned to the User based on it’s stand alone credit rating. In such a case, the additional amount secured by the parent must not exceed the parent company’s ability to bear risk and must take into account the extent to which other Users are secured by the parent under the UNC.

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.