

CODE MODIFICATION PROPOSAL No 0301
RG0252 Proposal 4: Removal of the use of Specially Commissioned Ratings for the
purposes of obtaining an Unsecured Code Credit Limit
Version 2.0

Date: 09/06/2010

Proposed Implementation Date: 1 October 2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

Review Group 0252 was raised by Wales and West Utilities in April 2009 seeking to review the existing credit arrangements contained within UNC TPD Section V and ensure that these remain fit for purpose and robust. The review group covered a wide range of credit related topics and produced a set of recommendations which included removing the ability of Users to obtain an Unsecured Credit Limit by using a Specially Commissioned Rating.

UNC TPD V3.1.1 (d) defines a Specially Commissioned Rating as being “*a rating commissioned and paid for by a User with either Moody’s Investor’s Service or Standard and Poor’s and which shall be monitored on a daily basis and reassessed on an annual basis.*” This type of report is available to organisations which do not have a public rating and is specifically requested by and paid for by the User. Such specially commissioned or private ratings can be used by new organisations who have no credit history, but are funded in such a manner that the Credit Rating Agency is able to produce a long term outlook based on a snapshot position.

This type of rating is not subject to the same level of ongoing monitoring by the credit rating agencies as a published rating is, and is not upgraded or downgraded in light of ongoing events, with the snapshot rating valid only at the time that it is initially set. Without further assessments being requested by the organisation, this will result in Specially Commissioned Ratings becoming out of date, and therefore unreliable as a stand alone tool for making assessment and awarding unsecured credit.

The use of Unsecured Credit Limits by means approved within UNC are all subject to rigorous monitoring to ensure that no undue risk is passed on the Transporter, and in the event of failure of a User, potentially through to other Users. The Specially Commissioned Rating cannot be subject to the same type of rigour as other tools used to set Unsecured Credit Limits as they are not continually monitored by the credit rating agency and therefore this is inconsistent with the other credit tools contained within UNC section V. This inconsistency poses a risk to Transporters and other Users that

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cannot be reasonably mitigated.

It is further worthy of note that a Specially Commissioned Rating can cost up to £100k to obtain and in the proposers opinion this high cost may be a significant reason why the use of this credit tool has not been utilised by any User.

The Proposal

This modification proposal seeks to remove Specially Commissioned Ratings as an acceptable tool for obtaining an Unsecured Credit Limit.

All other credit tools available within UNC TPD Section V, such as independent assessment, Deposit Deed, etc would continue to be available to the User and in the case of a new User the proposer believes that the use of an independent assessment would be a more cost effective method of obtaining an Unsecured Credit Limit.

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.

This proposal is consistent with the recommendations of Review Group 0252 and the proposer believes that the modification is sufficiently developed to proceed 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 the implementation of this modification will make the operation of the UNC in relation to UNC TPD Section V credit rules more efficient and reduce risk for Users. (Standard Special Condition A11.1 (f)).

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:

None 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

This modification will reduce the contractual risk which Transporters may be exposed to in relation to failure of a User and bad debt.

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)

None identified

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

This modification will reduce the level of residual risk which Users may bear as a result of failure of another User.

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

- Consistent approach for monitoring of credit tools
- Reduces unmitigated risk to all Users in the event of another User failure

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

TRANSPORTATION PRINCIPAL DOCUMENT

SECTION V

Amend paragraph V.3.1.1.(b) to read as follows:

“V.3.1.1.(b) An ”Approved Credit rating” is a published and monitored long term issuer rating of not less than Ba3 by Moody’s Investor’s Service or equivalent rating by Standards and Poor’s.”

Delete paragraph V.3.1.1.(d).

Paragraph V.3.1.1 delete the following highlighted/underlined wording:

“ The User shall notify the Transporter within 11 Business Day if the User’s Approved Credit Rating changes or if the User has a reasonable belief that its Approved Credit Rating is likely to change. Where the User commissions more than one Specially Commissioned Rating it shall notify the Transporter of each such rating and the Transporter shall use the lowest as the Approved Credit Rating”

Amend paragraph V 3.2.4.(c) to read as follows:

“V.3.2.4.(c) where any published Rating of the User or any person providing security for the User is revised downwards”

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V3.1.1 & V3.2.4

Proposer's Representative

Joanna Ferguson (Northern Gas Networks)

Proposer

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Joanna Ferguson (Northern Gas Networks)