

CODE MODIFICATION PROPOSAL No 0300
RG0252 Proposal 3: Introduction of Fitch as an allowable Credit Rating Agency for the
purposes of Code Credit Arrangements
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 allowing Investment Grade Ratings provided by Fitch in addition to those provided by Standard and Poor's (S&P) and Moodys Investment Services to be acceptable for obtaining an unsecured Code Credit Limit.

There are three main Credit Rating Agencies, Standard and Poor's, Moodys Investment Service and Fitch Ratings, all of which are widely used in banking, investments and securities in addition to credit monitoring. The credit ratings issued by these three agencies are often compared and are broadly considered to be equivalent to each other for the purposes of monitoring credit worthiness and long term outlook of an organisation. The use of credit rating agencies is considered to provide an independent point of view to verify the creditworthiness of organisations, although it should be noted that these are opinions of the agency and not an assurance.

As part of the Gas Transporter Licence Standard Special Condition A38 Ofgem requires that the licensee maintains an appropriate investment grade issuer credit rating which can be issued by S&P, Moodys or Fitch. It should be further noted that within the electricity regime the Connection and Use of System Code (CUSC) all three credit rating agencies are acceptable for the provision of Investment Grade Ratings for the purposes of obtaining an unsecured credit limit.

The Proposal

This modification proposal seeks to introduce Fitch Ratings as an allowable credit rating agency for the purposes of obtaining an unsecured Code Credit Limit.

As there are 10 separate references within UNC TPD section V3 it is proposed that this change will introduce a new defined term, Credit Rating Agency (CRA), which can be used in place of each of the 10 current references. This will further make any future changes to the acceptable CRAs more straightforward to change and thereby make consequential improvement to the administration of the code.

In order to provide additional clarity, the proposal will replace the table currently in UNC TPD section V3.1.3 with the table below which shows the equivalent ratings of each of the three CRAs:

Approved Credit Rating			User's % of Maximum Unsecured Credit Limit	Parent Company	Qualifying Company
Standard and Poor's	Moody's Investors Service	Fitch Ratings			
AAA	Aaa	AAA	100	✓	✓
AA+	Aa1	AA+	100	✓	✓
AA	Aa2	AA	100	✓	✓
AA-	Aa3	AA-	100	✓	✓
A+	A1	A+	40	✓	✓
A	A2	A	40	✓	✓
A-	A3	A-	40	✓	✓
BBB+	Baa1	BBB-	20	✓	x
BBB	Baa2	BBB	19	✓	x
BBB-	Baa3	BBB-	18	✓	x
BB+	Ba1	BB+	17	✓	x
BB	Ba2	BB	16	✓	x
BB-	Ba3	BB-	15	✓	x

This table is consistent with generally accepted practice within the financial sector and with CUSC.

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 enable Users to make better use of the code credit arrangements by offering more flexibility in the range of acceptable credit rating agencies acceptable within UNC. As a result of this extension of choice and flexibility this proposal will help to ensure that there is no inappropriate discrimination and will help to reduce barriers to market entry. This will inevitably facilitate effective competition (Standard Special Condition A11.1 (d)).

By streamlining the definition and references to the CRA this modification will improve the administration of the code for future consequential changes thereby better facilitating SSC 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:

Transporters will be required to use an additional approved Credit Rating Agency for monitoring Code Credit Limits and Value At Risk

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**

None identified

- 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)**

Provides Users with additional flexibility for obtaining unsecured credit.

- b) **The development and capital cost and operating cost implications**

DNs may need to pay for Fitch monitoring in addition to that of Standard & Poor's and Moodys.

- 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**

None identified

- 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 between GT Licence and UNC
- Consistent approach across electricity and gas codes
- Provides Users with additional flexibility for securing unsecured credit

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

V3.1.1 amend to read as follows:

“3.1.1 For the purposes of the Code:

- b) An “Approved Credit Rating” is a published and monitored long term rating provided by a Credit Rating Agency as defined in 3.1.1(e) or a Specifically Commissioned Rating of not less than Ba3 by Moody’s Investors Service or equivalent rating by Standard & Poor’s.

- d) A “Specifically Commissioned Rating” is a rating commissioned and paid for by a User with a Credit Rating Agency and which shall be monitored on a daily basis and reassessed on an annual basis.”
- e) A “Credit Rating Agency” can issue an Approved Credit Rating and is confined to Fitch Ratings, Moodys Investment Service and Standard and poor’s Rating Group and any of their subsidiaries.”

V3.1.3. a) amend to read as follows:

“3.1.3 a) Where a User has an Approved Credit Rating, such User’s Unsecured Credit Limit at any time shall be calculated as that percentage (%) of the Maximum Unsecured Credit Limit by reference to the User’s Approved Credit Rating as follows:

Approved Credit Rating			User’s % of Maximum Unsecured Credit Limit	Parent Company	Company
Standard & Poor’s	Moody’s Investors Service	Fitch Ratings			
AAA	Aaa	AAA	100	✓	✓
AA+	Aa1	AA+	100	✓	✓
AA	Aa2	AA	100	✓	✓
AA-	Aa3	AA-	100	✓	✓
A+	A1	A+	40	✓	✓
A	A2	A	40	✓	✓
A-	A3	A-	40	✓	✓
BBB+	Baa1	BBB-	20	✓	X
BBB	Baa2	BBB	19	✓	X
BBB-	Baa3	BBB-	18	✓	X
BB+	Ba1	BB+	17	✓	X
BB	Ba2	BB	16	✓	X
BB-	Ba3	BB-	15	✓	x

V3.1.4 amend to read as follows:

“3.1.4 Subject to paragraph 3.1.7, where a User does not have an Approved Credit Rating, or a User’s Approved Credit Rating is less than that in 3.1.3(a), such User may obtain an Unsecured Credit Limit by”:

V3.1.7 amend to read as follows:

“3.1.7 Upon request from a User, the Transporter will specify a panel of 3 independent credit rating agencies. The User may select any one of such agencies for the Transporter to use to allocate an Unsecured Credit Limit to the User as follows:

- b) where such User has an Approved Credit Rating less than that in 3.1.3(a) (up to a maximum of 13⅓% of the relevant Transporter’s Maximum Unsecured Credit Limit).”

V3.2.5 amend to read as follows:

“3.2.5 Where any published credit rating of the User or any person providing surety for a User is revised downwards to the extent that the credit rating following such revision is less than that in 3.1.3(a) then such User’s Code Credit Limit may be immediately reviewed and revised by the Transporter in accordance with the Code, on notice to the User”:

V3.4.5 amend the following definitions to read as follows:

“3.4.5 For the purposes of Code:

“**Enforceable**” shall mean the Transporter (acting reasonably) is satisfied that the instrument of security is legally enforceable and in this respect, where security is provided by a company registered outside of England and Wales, the Country of residence of such company must have a sovereign credit rating of a Qualifying Company (where such ratings conflict, the lower of the two ratings will be used) and the User shall at its own expense provides such legal opinion as the Transporter may reasonably require;

“**Letter of Credit**” shall mean an unconditional irrevocable standby letter of credit in such form as provide to the User form time to time by the Transporter from such bank as the Transporter may approve (provided that payment may be made at a United Kingdom branch of such issuing bank) with a long term debt rating of not less than that of a Qualifying Company (where such ratings conflict, the lower of the two ratings will be used);

“**Parent Company**” shall mean:

- (i) in the case of a company registered in England and Wales a public or private company within the meaning of Section 1(3) of the Companies Act 1985 with a long term debt rating of no less than 3.1.3(a) (where such ratings conflict, the lower of the two will be used) that is either a shareholder of the User or any holding company of such shareholder (the expression holding company having the meaning assigned thereto by Section 736, Companies Act 1985 as supplemented by Section 144(3) Companies Act 1989); or
- (ii) in the case of an entity registered outside of England and Wales, such equivalent entity to (i) above that is acceptable to the Transporter, acting reasonably;

“**Qualifying Company**” shall mean:

- (i) in the case of a company registered in England and Wales a public or private company within the meaning of section 1(3) of the Companies Act 1985 with a long term debt rating of at least A provided by a Credit Rating Agency as defined in 3.1.1 (where such ratings conflict, the lower of the two will be used); or
- (ii) in the case of an entity registered outside of England and Wales, such equivalent entity to (i) above that is acceptable to the Transporter, acting reasonably”.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V3

Proposer's Representative

Joanna Ferguson (Northern Gas Networks)

Proposer

Joanna Ferguson (Northern Gas Networks)