

**CODE MODIFICATION PROPOSAL No 0304**  
**RG0252 Proposal 7: Introduction of a rating table for independent credit rating**  
**agencies for use with Independent Assessments**  
**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 providing clarity on the application of Independent Assessment for the purposes of obtaining an unsecured Code Credit Limit.

In February 2007 UNC Modification 0113: Availability of Unsecured Credit Based on User Payment Record or Independent Assessment introduced the ability of Users to obtain Unsecured Credit Limit based on Independent Assessment for Users without a Moody's or Standard & Poors investment grade rating, or for those whose rating is below the prescribed minimum of BB- or equivalent. This was one of a series of modifications which sought to align UNC with Ofgem's recommendations contained within the "*Best practice guidelines for gas and electricity network operator credit cover*" 58/05 published in February 2005.

This modification introduced a scoring mechanism whereby Users could choose an agency from each Transporters panel of three and obtain between 3 1/3 % and 20% of the Transporter's Maximum Unsecured Credit Limit. A table prescribing the amount within this range based on a scoring mechanism of one to ten, with ten being the highest level was introduced into UNC section V3.1.7. When attempting to utilise this mechanism it became apparent that the independent rating agencies contacted were reluctant to prove a score in this manner without further detailed guidance as to what the levels represented.

Ofgem's letter directing implementation of this proposal considered that this would "*help to reduce barriers to market entry, and also reduce the potential for discrimination within the market*".

#### **The Proposal**

As part of Review Group 0252: Review of Network Operator Credit

Arrangements, discussion on how to apply the table currently contained within UNC have concluded that there is no clear guidance on the application of the scoring mechanism and that this may lead to Transporters using different methodologies for establishing the Independent Assessment Score based on interpretation of the Independent Assessment.

This modification seeks to provide clarity to Users on how the application of a rating provided by an independent credit rating agency would correspond with the table currently contained within UNC section V3.1.7.

In February 2009, Ofgem directed a change to the Distribution Connection and Use of System Agreement (DCUSA) (DCP034) which introduced similar Independent Assessment arrangements for obtaining a Credit Assessment Score from an Approved Credit Referencing Agency to determine the Credit Assessment Factor (CAF). The Credit Assessment Score in DCUSA is the equivalent of the Independent Assessment Score contained within the UNC table and the DCUSA CAF (%) is the equivalent of the % of Transporter’s Maximum Unsecured Credit Limit in UNC.

DCP034, however, also introduces a mapping table between the Credit Assessment Score and the established credit scores used by five Recognised Credit Assessment Agencies, providing clarity to Users on the how the application of an Independent Assessment will be applied to generate their CAF, and ultimately their maximum Unsecured Credit Limit.

This proposal seeks to implement a table similar to that already approved by Ofgem for use in DCUSA into UNC to add clarity on the application of Independent Assessment Scores. Following further discussion at the Distribution and Transmission Workstreams in November and December 2009 it was considered reasonable and manageable to offer three agencies, acceptable to all Transporters, from which Users could choose. All three agencies offer credit reports which are based on a wide range of financial information including payment experience, ownership of the business, and history of legal actions and collection information. It is proposed that the table below replaces the table currently provided in UNC TPD section V3.1.7(b):

Independent Assessment Score	Equivalent of the Independent Assessment Score to credit scores provided by independent credit rating agencies for Independent Assessments			% of Transporter’s Maximum Unsecured Credit Limit
	Dunn & Bradstreet/ N2 Check	Experian	Graydons	
	Comprehensive Report	Bronze, Silver or Gold Report	Level 1, Level 2, or Level 3 Report	

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10	5A1	95-100	1A	20
9	5A2/4A1	90-94	1B/2A	19
8	5A3/4A2/3A1	80-89	1C/2B/3A	18
7	4A3/3A2/2A1	70-79	2C/3B/4A	17
6	3A3/2A2/1A1	60-69	3C/4B/5A	16
5	2A3/1A2/A1	50-59	4C/5B/6A	15
4	1A3/A2/B1	40-49	5C/6B/7A	13 1/3
3	A3/B2/C1	30-39	6C/7B/8A	10
2	B3/C2/D1	20-29	8B	6 2/3
1	C3/D2/E1	10-19	8C	3 1/3
0	Below E1	Below 10	Below 8C	0

The Code Credit Limit applied to the applicant would be no higher than the lower of the value recommended by the independent assessment agency and the value calculated based on the table above. This prevents the inappropriately high Unsecured Credit Limits resulting from the Transporters RAV.

This will ensure that a consistent approach is taken by the Transporters in deriving the Independent Assessment Score and thereby improving the access to unsecured credit by Users and new market entrants.

This modification is also broadly consistent with the DCUSA arrangements and would therefore provide a more consistent and stable operating environment to Users of more than one code.

**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 implementation of consistent and clear arrangements to be used when undertaking Independent Assessments 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 providing clear guidance on the application of Independent Assessments this modification will improve the administration of UNC credit rules, 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:**

No implications have been 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**

Clarifying the terms under which the level of unsecured credit is determined enhances the contractual certainty and lowers risk for Transporters (and Users).

**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)**

Clarity of application of UNC will improve administrative arrangements and facilitate competition

**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**

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**

- Clarity on the application of existing arrangements will ensure a consistent approach is taken by Transporters.
- Use of readily available “off the shelf” credit reports would be more efficient and cost effective than instructing bespoke reports.
- Use of lower of rule ensures that there is no inappropriate limit on the basis of Transporter RAV.

**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

V3.1.7 AMEND TO READ AS FOLLOWS:

3.1.7 Upon request from a User, the User may select any one of the specified agencies for the Transporter to use to allocate an Unsecured Credit Limit to the User as

follows:

- a) where such User is unable to obtain an Approved Credit Rating (up to a maximum of 20% of the relevant Transporter's Maximum Unsecured Credit Limit); or
- b) where such User has an Approved Credit Rating below Ba3 (awarded by Moody's Investment Services or an equivalent rating by Standard & Poor's Corporation) (up to a maximum of 13⅓% of the relevant Transporter's Maximum Unsecured Credit Limit).

A score of between 0 and 10 will be allocated to the User in accordance with the following table to calculate the User's Unsecured Credit Limit:

Independent Assessment Score	Equivalent of the Independent Assessment Score to credit scores provided by the independent credit rating agencies for Independent Assessments			% of Transporter's Maximum Unsecured Credit Limit
	Dunn & Bradstreet/ N2 Check  Comprehensive Report	Experian  Bronze, Silver or Gold Report	Graydons  Level 1, Level 2 or Level 3 Report	
10	5A1	95-100	1A	20
9	5A2/4A1	90-94	1B/2A	19
8	5A3/4A2/3A1	80-89	1C/2B/3A	18
7	4A3/3A2/2A1	70-79	2C/3B/4A	17
6	3A3/2A2/1A1	60-69	3C/4B/5A	16
5	2A3/1A2/A1	50-59	4C/5B/6A	15
4	1A3/A2/B1	40-49	5C/6B/7A	13⅓
3	A3/B2/C1	30-39	6C/7B/8A	10
2	B3/C2/D1	20-29	8B	6⅔
1	C3/D2/E1	10-19	8C	3⅓

0	Below E1	Below 10	Below 8C	0
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The Transporter will set the Users Unsecured Credit Limit no higher than the lower of the credit value recommended within the Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transport's Maximum Unsecured Credit Limit.

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** V3.1.7

**Proposer's Representative**

Joanna Ferguson (Northern Gas Networks)

**Proposer**

Joanna Ferguson (Northern Gas Networks)