

Workstream Report

Independent security provision by an entity with an Investment Grade Rating of 'A' or above

Modification Reference Number 0024

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

1. The Modification Proposal

This Proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation.

This Proposal seeks to implement recommendations detailed within paragraphs 3.39 to 3.40 of the conclusion document.

Where a User requests an unsecured credit limit a credit rating is required. If an acceptable published rating is already available, this will/would be used. Alternatively, a User may arrange for an assessment by a recognised independent credit rating agency. Currently, Transco would accept credit support from an entity with BBB- rating or above.

It is proposed that independent security valued at 100 per cent of face value would be accepted subject to the following conditions:

- Credit support must be from an entity with a long term debt rating of
- not less than A by Standard & Poor's or Moody's KMV;
- Credit support shall be legally enforceable in the UK;
- The country of residence of the support provider must have a sovereign
- credit rating of A or better from non-local currency obligations;
- There are no material conditions preventing exercise of the security.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications on security of supply or operation of the Total System have been identified. Incorporating the existing Credit Rules within the UNC may help to reduce the prospect of industry fragmentation.

4. **The implications for Transporters and each Transporter of implementing the Modification Proposal , including**
 - a) **implications for operation of the System:**
No implications for operation of the system have been identified.
 - b) **development and capital cost and operating cost implications:**
The proposer has suggested that any costs would be minimal.
 - c) **extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**
No cost recovery mechanism is proposed.
 - d) **analysis of the consequences (if any) this proposal would have on price regulation:**
No such consequences are anticipated.
5. **The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**
No such consequence is anticipated
6. **The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**
No systems impacts are anticipated by either Transporters or Users.
7. **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**
There could be an increase the cost of credit cover provided by some Users.
8. **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**
No such implications have been identified.
9. **Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**
No such consequences are anticipated.
10. **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Ensures there continue to be no inappropriate barriers to entry as a result of credit requirements

Disadvantages

- May create inconsistency between the UNC and each set of Credit Rules
- Increases the cost of credit cover for some Shippers, thereby increasing industry costs

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

No written representations have been received.

No specific issues were raised by Workstream attendees with respect to this specific Modification Proposal.

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14. Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

The Proposer believes that minimal changes would be required in respect of operational processes and procedures and therefore this Modification Proposal could be implemented with immediate effect if appropriate direction is received from the Authority.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Workstream recommendation regarding implementation of this Modification Proposal

The consensus of attendees at the Distribution Workstream meeting on 23 June 2005 was that implementation of this Modification Proposal may be expected to facilitate achievement of the Relevant Objectives. However, Shipper's felt it would have been more efficient and a better use of resources to see a wider Modification Proposal encompassing Ofgem's recommendations in full and bringing the whole of the existing Credit Rules within the UNC – thereby

facilitating the Relevant Objectives further than through implementation of this Modification Proposal.

Attendees believed that, were this Proposal to be implemented, increased facilitation of the Relevant Objectives would be achieved if implementation were coincident with that of Modification Proposals 0023, 0025, and 0026 (and any subsequent related Proposals in this area) which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes associated with the various Proposals could be implemented in a coordinated and efficient manner. This would also apply to Modification Proposal 0027 if the proposed right of set off was elective for Shippers.

18. Text

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules