



SCOTIA GAS NETWORKS CODE CREDIT RULES

Document Control

Version	Date	Reason for Change
1.0	2 May 2006	First Draft
2.0	28 th Sept 2007	Change Director's name and insert mod 147
3.0	7 th May 2008	Insert Mod 144 and 145

Development of Code Credit Rules

1. The requirement to publish the Code Credit Rules is specified in Section V3.1.2 of the Transportation Principal Document (TPD) of the Uniform Network Code (UNC). This section also provides for the document to be revised from time to time. The provision reads¹:

“The ‘**Code Credit Rules**’ are the rules from time to time established and revised by the Transporter and issued to Users setting out (inter alia):

- (a) the principles on which the Transporter will assess and from time to time revise (in accordance with paragraph 3.2.2) its assessment of the credit-worthiness of Users (and persons providing surety for Users) and establish Code Credit Limits;
- (b) the basis on which a User may (with a view to increasing its Code Credit Limit) provide surety or security for Relevant Code Indebtedness, or (with a view to reducing its Relevant Code Indebtedness) make prepayments to the Transporter;
- (c) procedures by which a User may discuss its Code Credit Limit with the Transporter. (V3.1.2)

The Code Credit Rules do not form a part of the Code and (but without prejudice to the further provisions of this paragraph or to anything done pursuant to the Code Credit Rules) nothing in the Code shall make compliance with such rules an obligation of the Transporter or Users. (V3.1.3)”

2. The Code Credit Rules set out below meet Scotia Gas Networks’ (SGN’s) obligation to prepare rules, while the Document Control Section records changes that have been made to the rules. The document is published on the Joint Office of Gas Transporters’ website, www.gasgovernance.com and on the Scotia Gas Networks website, www.scotiagasnetworks.co.uk.
3. The UNC does not consult users when changes to these rules are proposed. However, SGN would welcome comments from Users on the published rules at any time, which should be sent to mike.bedford@scotiagasnetworks.co.uk. When SGN wishes to revise the Code Credit Rules, we intend adding the proposed revision to the agenda of the UNC Committee such that the views of User representatives can be sought prior to any revisions being made.

¹ Correct as at 1 April 2006, Version 2.02 of the UNC.

1. Introduction

This document has been designed to provide existing and prospective Users with all the information they need about the Code Credit Rules and how they are applied by Scotia Gas Networks (SGN) in managing its transportation credit risk exposure to Users.

The document sets out to answer those questions which are most commonly asked by Users, and gives an overview of how code credit limits are established, secured and monitored. For ease of reference we have also provided cross references to the Uniform Network Code (UNC) and 'Best Practice Guidelines for gas and electricity network operator credit cover – February 2005 58/05', to provide you with a fuller explanation on particular legal or technical issues. We will endeavor to update this document following any relevant UNC modifications and in accordance with the Best Practices Guidelines.

Once you have read the document, SGN would be pleased to discuss your requirements further and to answer any questions which you may have. Contact details can be found at the back of the document.

It should be noted that the Code Credit Rules only apply to transportation services.

2. The Code Credit Rules

2.1: What are the Code Credit Rules?

Under the UNC, all Users must obtain a Code Credit Limit from SGN prior to the commencement of trading. The Code Credit Rules describe how that limit is determined, the security that SGN may require from a shipper to support its Code Credit Limit and the process SGN will use to monitor utilisation against that limit.

These Code Credit Rules are, in accordance with Section 3.1.2. of the Uniform Network Code (UNC), the principles and procedures that SGN will use to ensure that its credit exposure is managed on a consistent basis across all shippers. These rules are designed to be consistent with Best Practice Guidelines.

For each User we will determine a "Code Credit Limit". We will keep the User advised of their Code Credit Limit and of any changes in it.

We will also calculate a "Relevant Code Indebtedness" for each user.

Each User's Relevant Code Indebtedness must not exceed 80% of their Code Credit Limit. Where a User's Relevant Code Indebtedness exceeds this level we will advise the User and they must take steps to remedy the position. In the

event that the situation is not remedied we will pursue the remedies available under both the Uniform Network Code and in common law.

2.2: Who should I talk to about the Code Credit Rules?

Responsibility for setting credit limits for Users and for monitoring exposure rests with the SGN's Credit and Risk Management team. They can be contacted at the address at the back of the booklet.

3. Code Credit Limits

3.1: What does the Code Credit Limit represent?

The Code Credit Limit represents the maximum indebtedness that SGN will extend to a User. Indebtedness arises as a result of transportation services provided to the User and includes amounts both invoiced and those services which have been provided but not yet invoiced. Indebtedness therefore changes on a daily basis as further charges are accrued.

3.2: How Do I Determine a User's Code Credit Limit?

Section 3.1.1 of the Uniform Network Code (UNC) requires that we "...determine and assign to each User a Code Credit Limit...".

We use the following methodology for determining The Code Credit Limit.

Step 1: We determine a Maximum Unsecured Credit Limit in accordance with Best Practices Guidelines for Network Operator Credit Cover, section 3.4. This is equivalent to 2% of our Regulatory Asset Value (RAV).

Step 2: We determine an Unsecured Credit Limit for each User.

The Unsecured Credit Limit is a percentage of The Maximum Unsecured Credit. For each User we determine the percentage by reference to their Approved Credit Rating. (For these purposes we use the lower of the Credit Ratings provided by either Moody's or Standard and Poor's.)

The following table shows the percentages applicable to each Rating. This is in accordance with Section V 3.1.6 of the UNC and Section 3.7 of the Best Practices Guidelines.

<i>Approved Credit Rating</i>		<i>User's % of Maximum Unsecured Credit Limit</i>
Standard and Poor's	Moody's Investors Service	
AAA/AA	Aaa/Aa	100
A	A	40
BBB+	Baa1	20
BBB	Baa2	19
BBB-	Baa3	18

For example, A User with An Approved Credit Rating of AAA or Aaa will be entitled to an Unsecured Credit Limit of 100% of the MUCL.

A User with An Approved Credit Rating of BBB+ or Baa1 will be entitled to an Unsecured Credit Limit of 20% of the MUCL.

A User that does not have an Approved Rating may have an Unsecured Credit Limit equal to 0.4% of the MUCL for each year of perfect payment history. The maximum allowed Unsecured Credit Limit under this arrangement is 2.0% of the MUCL (equivalent to 5 years of perfect payment). If a user subsequently fails to make payment in full of any invoice(s) with a total amount due of £250 or less, then such user's unsecured credit limit shall be reduced by 50% from the date of such payment default (Mod 0147). Any underperformance in respect of payment of invoices with a total amount due of greater than £250 will result in the User's Unsecured Credit Limit being reduced to Zero.

Step3: The final stage in setting the Code Credit Limit is when a User may extend their level of exposure beyond the Unsecured Credit Limit by providing additional forms of security. This is in accordance with UNC Section V 3.4.6 and to view additional information see Best practices guidelines Section 3.35 to 3.43.

Security may be any, or a combination of the following:

- An approved LoC or equivalent bank guarantee from a bank with a long term
- debt rating of not less than A by Moody's or Standard & Poor's;
- Cash deposit/prepayment (payment made before the delivery of the service);
- Advance payment (payment made after the delivery of a service but before contract settlement);
- An approved ESCROW account;

- A performance bond (provided by an insurance company, not a bank);
- Bi-lateral insurance; and
- Independent security.
- A Parent Company Guarantee may be used to determine the Unsecured Credit Limit, where this is the case The Parent Company's Approved Credit Rating will be used as an alternative to, not in addition to the User's Approved Credit Rating.

3.3: How is a User's Relevant Code Indebtedness Calculated?

In accordance with the Best Practice Guidelines, Section 3.30, the Relevant Code Indebtedness will consist of:

- a) the aggregate value of all charges which have been billed to the User (but not necessarily due) but remain unpaid; and
- (b) a deemed amount equal to the aggregate value of all UoS charges that would be incurred in twenty day period at the same average daily rate implicit in billed charges under (a).

3.4: What Action is required when the Relevant Code Indebtedness exceeding [80%] of the User's Code Credit Limit?

Exceeding 80% of the user's code credit limit may occur because either the User's Relevant Code Indebtedness has increased or the User's Code Credit Limit has reduced. Either situation will require action to increase the User's Code Credit Limit.

In either case we will give formal notice to the User that remedial action is required and we will also advise the User of the level that we require the User's Code Credit Limit to be increased to.

Where the User fails to take action necessary to reduce the Level of Relevant Code Indebtedness to below 80% of their Code Credit Limit within 2 Business Days of being served with a formal notice, the User will be liable to pay such charges as are provided for, in respect of the additional security that we require, in accordance with UNC Section V 3.2.9. To view additional information, refer to the Best Practices Guidelines, section 3.50.

4. How often are Credit Limits reviewed?

SGN will review a Users credit limit at least every 12 months, this review will commence 3 months prior to the expiry of any security documents held by SGN. However, SGN may initiate a review at any other time if there have been changes to a Users circumstances, and may seek authorisation to request appropriate bank and trade references.

Section V3.2.4 of the UNC – Transportation Principal Document
A Users Code Credit Limit may from time to time be reviewed and revised, in accordance with the Code

Credit Rules on notice of not less than 30 days (or any lesser period agreed by the User);

- (i) at intervals of approximately 12 months;
- (ii) at the Users request (but subject to paragraph 3.2.6);
- (iii) where any published credit rating of the User or any person providing surety for the User is revised downwards;
- (iv) where (but without prejudice to any requirements of the Code Credit Rules) any instrument of surety or security expires or is determined;
- (v) at SGN's request where at any time SGN as reasonable grounds to believe that the effect of the review will be to reduce the Users Code Credit Limit.

A User may also request a change to its credit limit or form of security at any time subject to 10 days written notice.

V3.4.3 Following a request by a User under paragraph 3.4.2, SGN will as soon as reasonably practicable and, except where the User also requests a review (by an agency appointed by SGN for such purposes) and revision of its Code Credit Limit, in any event not more than 10 Business Days after such request, release security, or agree to a reduction in surety, to such extent or by such amount as will permit the condition in paragraph 3.4.4 to be satisfied.

Provision of alternative security may be necessary to accommodate the request.

V3.4.4 The condition referred to in paragraph 3.4.3 is that the amount of the User's Relevant Code Indebtedness at the date of such release of security or reduction is not more than 80% of the amount of the Users Code Credit Limit, determined in accordance with the Code Credit Rules on the basis of the release of security or reduction in surety (and taking into account any alternative surety or security provided by the User).

Should a User cease trading in respect of Transportation services, a minimal level security will be required for a period of 18 months from the last issued invoice payment due date to cover potential invoice adjustments. The minimal level of security will be discussed and agreed with the User.

5. Procedures by which a User may discuss it's Code Credit

5.1: How will the User be notified of its Credit Limit Utilisation?

Each User will be required to nominate two contacts to whom notification of their credit limit utilisation can be sent.

The user's utilisation is reviewed on a daily basis and if it is reaching 80%, a telephone call will be made to advise and make the user aware that their utilization is rising. A formal notification will be sent when utilisation rises above 80% of their Code Credit Limit, in accordance with the Best Practices Guidelines 3.46.

During this formal notification process the Credit and Risk Management team will discuss with the User ways to rectify the situation e.g. SGN may ask for a payment on account to ensure that indebtedness remains within the agreed limit or undertake a review of the Code Credit Limit.

If utilisation remains above 80%, SGN may apply sanctions, as detailed in the UNC until such time as utilisation reduces to below 80% of the Code Credit Limit. It is for this reason that SGN divides the anticipated peak trading requirement by 80% to arrive at the Code Credit Limit.

Section V3.3.2 of the UNC Principal Document describes the sanctions that may be applied by SGN.

5.2: What happens if a User exceeds its Credit Limit?

In view of the formal notification SGN sends to User at 80% utilisation of the Code Credit Limit, we would hope to avoid situations where a Users Code Credit Limit is exceeded by understanding the Network Code Users future requirements and agreeing an increased limit in accordance with the Code Credit Rules.

Should a Users utilisation exceed 100% of their Code Credit Limit, and SGN and the User are unable to agree an increase in the credit limit and ongoing dialogue between the parties has not led to reduced indebtedness in accordance with the Code Credit Limit then SGN may call upon any security or surety that has been provided by the User. Alternatively SGN may terminate a Users UNC Contract in accordance with UNC – Transportation Principal Document Section V3.3.3.

Section V3.3.3 of the UNC – Transportation Principal Document describes the sanctions that may be applied by SGN if a Users utilisation level exceeds 100% of their Code Credit Limit:

V3.3.3 Subject to paragraph 3.3.1, where and for so long as the Relevant Code Indebtedness of a User for the time being exceeds 100% of the User's Code Credit Limit, SGN may give Termination Notice (in accordance with paragraph 4.3 and Best Practice Guidelines, 3.50) to the User.

The formal exposure milestones will be as follows:

- The User will receive informal telephone calls from SGN when measured limit utilisation is rising towards 80%. This will act as a warning that exposure, although manageable, can quickly rise from this level to the approved limit in the event of any difficulties being encountered.
- The User will receive a formal notification when the Users measured utilisation reaches 80%. Furthermore, at this point SGN reserves the right to apply sanctions, as detailed in the UNC.
- Throughout the escalation process, SGN will maintain contact with the User to understand the reason for increases in credit exposure levels and will provide support and assistance where possible.

Default can occur in a number of situations, one of which is when the User is in breach of its credit limit. A shipper may be given a short period of time in which to rectify any breach, alternatively the shipper and SGN may agree an action plan to rectify the position.

Termination will deal with the processes of 'termination of supply' and recoveries of debt owed to Scotia Gas Networks Limited. The User will be formally notified of the date set by SGN to terminate its shipper Agreement.

Further Information

All enquiries relating to our Credit Risk Management procedures should be directed in the first instance to:

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Director of Financial Reporting
Scotia Gas Networks plc
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11 West Shore Road
Edinburgh
EH5 1RH

Telephone: 0131 5596184