

Credit Process Overview



Credit Process Overview

Reference:

- Uniform Network Code (UNC) - Transportation Principal Document Section V 3 Code Credit Limits.
- To access the relevant section of the UNC click on the below link.
<http://www.gasgovernance.co.uk/TPD>
- Terms in this overview are as defined in the UNC.

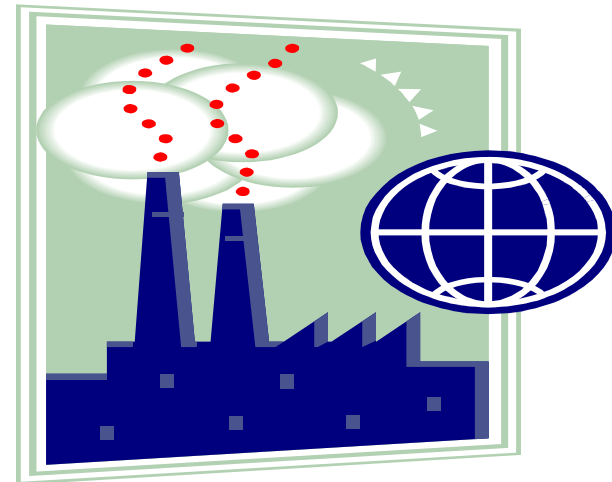
New Shipper Process

- Xoserve customer life cycle team advise National Grid's Securities & Risk team of new gas customer.
- Application form is submitted to Securities & Risk electronically by Xoserve.



Securities & Risk Initial Contact

- Securities & Risk team will contact the customer to confirm their intentions in accordance with UNC Section V3.1
- If new customer wants to use the NTS (National Grid Transmission System) then a Code Credit Limit will be required.
- If a new customer wants to trade at the NBP (National Balancing Point) only, then no Code Credit Limit is required.



Calculation of Code Credit Limit Requirements

- Estimated volumes provided in kwh per annum.
- Entry/Exit Points.

To view the latest National Grid Charges Statements, click on the below link.

<http://www.nationalgrid.com/uk/Gas/Charges/Statements>

Calculation of Code Credit Limit based on customer's estimated annual volumes

Estimate for new customers:

- $\text{Annual Capacity Charges} / 365 \text{ (days)} * 50 \text{ Value at Risk (}^1\text{ VAR)} / ^20.80\% \text{ utilisation} = \text{proposed Code Credit Limit.}$

Existing customers:

- On-going customer monitoring is calculated once customer is active.

Value at Risk is calculated as follows:

- $\text{Previous months invoice totals} / \text{number of days within that month} * 20 \text{ day accrual plus current months exposure total} = \text{Value at Risk.}$

1.Value at Risk (VAR) UNC Section 3.2.1(d)

2.Requirments as to Value at Risk 3.3.1 (a) & (b)

Code Credit Limits and acceptable Security or Surety

Unsecured

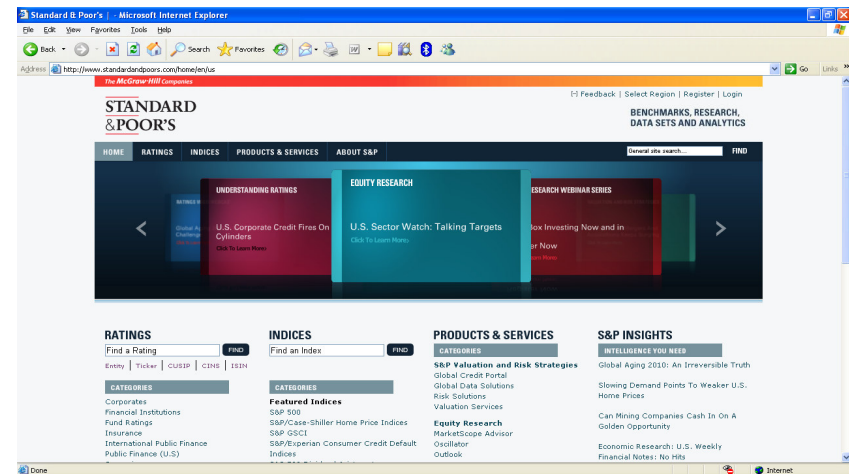
- Investment Grade Rating;
- Independent Assessment (limited to eligible customers);
- Payment history allowance restricted to first 2 years.

Security and Surety

- Letter of Credit; and / or
- Guarantee; and / or
- Deposit Deed; and / or
- Prepayment Agreement.

Approved Credit Rating

- Minimum requirement - Moody's Ba3 rating or Standard & Poor's and Fitch rating BB-.
- The Code Credit Limit is based on % of National Grid Gas Plc Regulatory Asset Value, maximum 2%, and is applied as unsecured credit.
- Credit rating downgrades resulting in insufficient Code Credit Limits will require a form of security within 2 working days.



Maximum Unsecured Credit Limit

- Guidelines to maximum allowance of approved User or guarantor.

Approved Credit Rating			User's % of Maximum Unsecured Credit Limit
Standard & Poor's	Moody's Investors Service	Fitch	% of Maximum RAV Available
AAA/AA-	Aaa/Aa3	AAA/AA-	100
A+/A-	A1/A3	A+/A-	40
BBB+	Baa1	BBB+	20
BBB	Baa2	BBB	19
BBB-	Baa3	BBB-	18
BB+	Ba1	BB+	17
BB	Ba2	BB	16
BB-	Ba3	BB-	15

Letter Of Credit

Issuing bank must have Investment Grade Rating of ¹‘A’ or above provided by Moody’s, Standard & Poor’s or Fitch.

Payment to be made at a UK branch of the issuing bank.



1.Note: 'A' includes A- /A3

Guarantee

- Parent company must hold an Investment Grade Rating of at least Ba3 Moody's, BB- Standard & Poor's or Fitch.
- Non-parent guarantees to be at least 'A-/A3' rated or above.
- Guarantor who sits outside of England & Wales must have an accompanying legal opinion.
- Each renewal of the guarantee will require a new legal opinion.

DATED		20
[GUARANTOR] (1)		
in favour of		
NATIONAL GRID GAS PLC		(2)
GUARANTEE		

Deposit Deed

- Deposit of cash held as security.
- A legal document needs to be executed by both parties.
- Accrues interest bi annually (fiscal year April & October).
- Customer who sits outside of England & Wales must have an accompanying legal opinion.



DATED []
DEPOSIT DEED
BETWEEN
National Grid Gas plc
and
[]

Prepayment Agreement

- A Prepayment Agreement is made between National Grid and the customer.
- In respect of each charging month, Securities & Risk team shall issue a notification of prepayment statement for estimate of service to the customer by no later than the 20th calendar day of the preceding month.
- The customer shall no later than 12 noon on the last Business Day of the preceding month, pay the prepayment sum in full in cleared funds.

Payment History

- A User can accrue an Unsecured Credit Limit based on payment history for the first 2 years following their accession to UNC.
- Where a late payment is made on only one occasion in a 12 - month period, the customer's Unsecured Credit Limit shall not be increased for that month.
- Where a late payment is made on more than one occasion in a 12 - month period, the customer's Unsecured Credit Limit shall be reduced to zero from date of the second late payment.
- After 2 years the customer will be required to provide an alternative form of security.

Independent Assessment only when eligible and not part of a rated group

- UNC Section V 3.1.7
- A customer may be granted an Unsecured Credit Limit based on an independent assessment score by either Dun & Bradstreet, Experian or Graydon.
- As per UNC Section V 3.1.8, the customer must pay 20% of the costs incurred in obtaining such assessments.
- An Unsecured Credit Limit will be awarded based on the rating no higher than the lower of 1) the credit value recommended within the Independent Assessment and 2) the value calculated by applying the Independent Assessment score to the Transporter's Maximum Unsecured Credit Limit.

Independent Assessment Table

- Extract from UNC Section V 3.1.7

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	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

Active Customer

- The customer's account is monitored daily based on the customer's Value at Risk.
- If a customer exceeds 80% of its Code Credit Limit, National Grid will give notice to the customer to that effect. This acts as an early warning and no action is required.
- A User that exceeds 100% of its Code Credit Limit will be required to rectify the exposure within 2 working days from the date of such notification.