



**PHOENIX NATURAL GAS LIMITED**

**DISTRIBUTION CODE**

**CODE CREDIT RULES**

## **THE CODE CREDIT RULES**

### **What are the Code Credit Rules?**

Under the Code, all Users must obtain a Code Credit Limit from Phoenix prior to supplying gas to consumers where the gas is conveyed through the System. The Code Credit Rules describe how that limit is determined, the security that Phoenix may require from a User to support its Code Credit Limit and the process Phoenix will use to monitor the User's exposure against that financial limit.

#### **Box 1**

**Section O4 of the Code defines the Code Credit Rules as follows:**

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

- (a) the principles on which the Operator will assess and from time to time revise (in accordance with paragraph 4.8) its assessment of the credit-worthiness of Users (and persons providing surety for Users) and establish Code Credit Limits; and**
- (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 Operator."**

### **Who should I talk to about the Code Credit Rules?**

Responsibility for setting credit limits for Users and for monitoring exposure rests with Phoenix's Credit and Risk Management Team. The Credit and Risk Management Team can be contacted via the Transportation Services Manager whose contact details are provided below:

#### **Transportation Services Manager**

**Address: 197 Airport Road West**

**Belfast**

**BT3 9ED**

### **Modification**

This document may, from time to time, be modified by the Authority with agreement from Phoenix, or by Phoenix with the consent of the Authority.

### **Revision**

Phoenix will issue all Users with a copy of the revised Code Credit Rules after any revision.

## **CODE CREDIT LIMITS**

### **What does the Code Credit Limit represent?**

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

### **Credit Limit Determination**

The process followed in determining a credit limit is set out below. Phoenix will, subject to commercial prudence, endeavour to allocate to a User a credit limit that will not restrict the User's commercial activities.

The credit limit determination process has three component steps outlined below



### **Step A – What level of Credit will I need?**

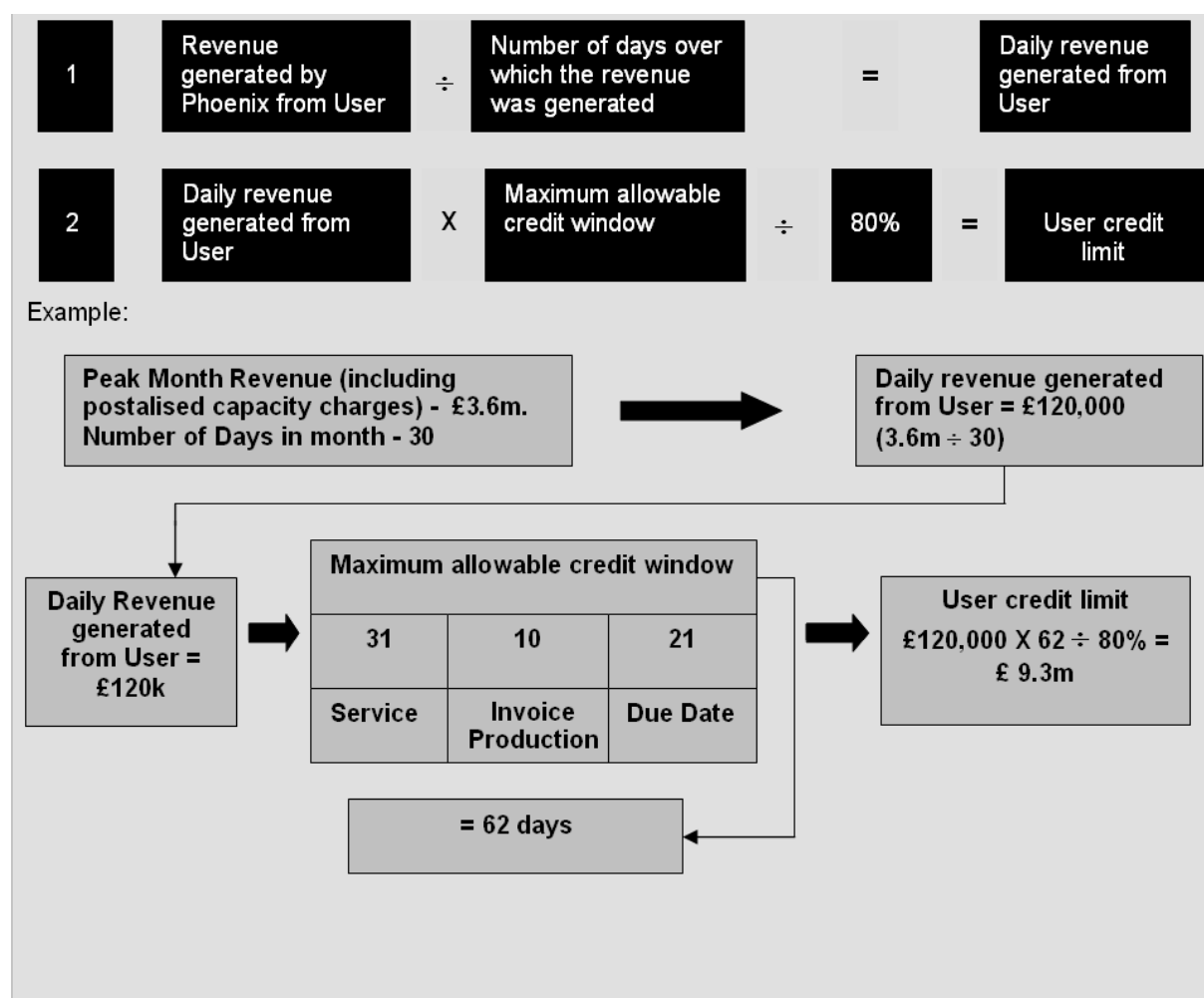
First of all it is necessary to estimate the User's peak throughput requirement (or estimated peak indebtedness). To enable Phoenix to do this the User will be required to provide information on the numbers of customers within each of Phoenix's charge bands (as published in Phoenix's prevailing Conveyance Charge Statement). Phoenix will then use a number of different modelling techniques to arrive at the estimated peak indebtedness. For a new User, various parameters are taken into account, for example the level and type of business activity, and the size and type of sites that may form part of its portfolio of Supply Points. In each case Phoenix uses this type of information to predict the scale of charges (including VAT) for 62 days of peak throughput. This amount is then used as a basis for the calculation of the User's Code Credit Limit.

For an existing User, the last twelve months' invoiced charges will be reviewed to assess peak historical exposure and be adjusted for any anticipated changes to the User's customer portfolio of Supply Points.

In determining a User's estimated peak indebtedness Phoenix will also take into account the amount of capacity which Phoenix holds (and pays for) on a User's behalf in each other transmission pipeline in Northern Ireland which is connected to the System (i.e. postalised capacity).

Following application of these processes and consultation with the User to arrive at a peak throughput requirement, the peak indebtedness is divided by 80% to arrive at the Code Credit Limit.

## Establishing a User's Code Credit Limit



### Step B - On what basis must a User provide security in support of its Code Credit Limit?

There are two options available to a User:

- **Unsecured Credit Limit:** The availability of an unsecured Code Credit Limit is dependent upon the credit rating of a User. Phoenix will only make this option available where the User has an acceptable investment grade rating from an approved credit rating agency.
- **Secured Credit Limit:** Where a User does not have an acceptable investment grade rating from an approved credit rating agency the User is required to provide surety or security in an amount equal to the User's Code Credit Limit.

### What forms of security are acceptable to Phoenix?

The provision of security by a User must be in a form acceptable to Phoenix. There are a number of different options. These include a guarantee from the User's parent company (provided that the guarantor has a suitable investment grade rating), a guarantee or irrevocable letter of credit issued by an acceptable UK financial institution, prepayment or a cash deposit by means of a deposit account. Standard forms for each type of security document will be provided by Phoenix on request and Phoenix will consider any combination of security documents provided the overall amount secured matches the User's Code Credit Limit.

Where a User has provided security the User may ask Phoenix to release the security or reduce the amount of the security. Phoenix will as soon as reasonably practicable (but by not later than 10

Business Days following the request) agree to release or reduce the amount of the security provided that following any such release or reduction the User's Code Credit Limit utilisation level is no more than 70%.

Note that Phoenix will treat any parent company or bank guarantee or irrevocable standby letter of credit as having a deemed value of zero for the purposes of security, 30 days prior to the security documents maturity date.

Where a cash deposit is provided there are a number of rules relating to the deposit account.

## **Box 2**

### **Section O14.17 of the Code**

**"A User may (inter alia) provide security for the purposes of the Code Credit Rules in the form of deposit in a bank account where...."**

These rules include the requirement that the deposit account must be in the joint names of Phoenix and the User, interest must be for the benefit of the User and the bank must make payment to the Operator of amounts which have become due to Phoenix.

#### ***What if a credit rating is required?***

Where a User requests an unsecured credit limit (or wishes to provide security by way of a guarantee) then a credit rating is required. If an acceptable published rating is already available, this may be used. Alternatively Phoenix may arrange for the company or proposed guarantor to be assessed by a recognised credit rating agency.

The results of the credit rating, which is the agency's view of the User's (or the guarantor's) ability to make full and timely payment of its obligations to Phoenix, will remain confidential between Phoenix, the rating agency and the User or guarantor.

The table below shows the typical range of credit ratings that are used by Moody's Investor Services, similar rating scales are used by all other major rating agencies.

<b>Rating Category</b>	<b>Financial Security of Companies in Category</b>	
Aaa	Exceptional	
Aa	Excellent	
A	Good	
Baa	Adequate	Strong companies / Investment Grade
Ba	Questionable	Weak companies / Speculative grade
B	Poor	
Caa	Very Poor	
Ca	Extremely poor	
C	Low	

Phoenix considers an acceptable credit rating for the provision of credit support as a long term Baa or higher investment grade rating as defined by Moody's, or an equivalent rating from an equivalent agency.

*The maximum amount of credit which Phoenix will grant to a User based on unsecured credit support by means of a credit rating is detailed in the table below:*

<b>Credit Rating</b>	<b>Maximum allowed unsecured credit amount (£)</b>
Aaa	30,000,000
Aa	22,000,000
A	16,000,000
Baa	10,000,000

***Who pays if a credit rating is required?***

Where a User does not have a current credit rating Phoenix expect Users to meet the costs of the initial credit rating assessment and of any subsequent review.

***Step C - How often are Code Credit Limits reviewed?***

Phoenix will review a User's credit limit periodically. However, Phoenix may initiate a review at any other time if there have been changes to a User's circumstances (e.g. to the size of its customer base), and it may seek authorisation from a User to request appropriate bank and trade references.

### **Box 3**

#### **Section O4.8 of the Code**

**"A User's 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 15 Days (or any lesser period agreed by the User) to the User:**

- (a) at the Operator's or the User's request;**
- (b) where any published credit rating of the User or any period providing surety for the User is revised downwards; and**
- (c) where (but without prejudice to any requirements of the Code Credit Rules) any instrument of surety or security expires or is determined."**

#### ***Who pays for a review of a Code Credit Limit?***

Phoenix will meet the costs for ad-hoc and periodic reviews of a User's Code Credit Limit. Periodic reviews are usually carried out every twelve months. Phoenix will not meet the costs incurred by the User in relation to any such review.

### **Box 4**

#### **Section O4.9**

**"Subject to paragraph 4.10, the Operator will bear the costs and fees it incurs (but not any costs incurred by the User) in connection with any review of a User's Code Credit Limit in accordance with paragraph 4.8."**

## ***INDEBTEDNESS CALCULATION***

### ***How is a User's Code Credit Limit utilised?***

Phoenix will each Day calculate the level of a User's indebtedness or Relevant Code Indebtedness.

### **Box 5**

**Relevant Code Indebtedness is defined in Section O4.5(b) of the Code as:**

- "(a) the aggregate amount, including Reconciliation Energy Charges [and Postalised Capacity Charges], for which a User is at any time liable to the Operator pursuant to the Code, determined on the basis of amounts accrued (and in accordance with paragraph (c) where applicable) and irrespective of whether such amounts have been invoiced under Section K or (where invoiced) have become due for payment; less**
- (b) any amount which has been paid to the Operator by the User by way of prepayment on**

**the basis that the Operator may apply such amount without the User's consent in or towards payment of amounts referred to in paragraph (a), and which has not yet been so applied;**

**...."**

### ***What about Invoice Queries?***

A User may have submitted invoice queries in line with the query process laid down in the Code. Where a User had submitted an invoice query the disputed amount will be taken into account by Phoenix when determining the User's Code Credit Limit utilisation.

## Box 6

Section O4 of the Code defines how invoice queries are treated when calculating indebtedness.

**"4.6 For the avoidance of doubt, the amount of a User's Relevant Code Indebtedness shall be determined by reference to the relevant provisions of the Code, and nothing in the Code shall be construed as withdrawing from a User any right to dispute whether the Operator has correctly calculated such amount in any case, or from the Operator any right to dispute the validity of any Invoice Query submitted by any User.**

**4.7 Without prejudice to paragraph 4.6, where a User has submitted an Invoice Query in accordance with Section K4 in respect of any Invoice Document the Operator will review and give due consideration to such Invoice Query."**

## CODE CREDIT LIMIT UTILISATION

### *How is this measured?*

On any Day a User's indebtedness will represent the total amount due to Phoenix under the Code:

Invoiced & due for payment	£ 50,000
Invoiced and not due for payment	£ 150,000
Accrued but not invoiced	£ 25,000
	<hr/>
<b>Total indebtedness</b>	<b>£ 225,000</b>

A User may make prepayments to Phoenix. Where a User makes a prepayment the amount of the prepayment will be deducted from the User's total indebtedness before the User's Code Credit Limit utilisation is calculated.

The User's Code Credit Limit utilisation is the total indebtedness, less any prepayments, expressed as percentage of the User's Code Credit Limit.

### *When will the shipper be notified of its Code Credit Limit utilisation?*

Phoenix will notify the User when its Code Credit Limit utilisation is in excess of 70% of its Code Credit Limit. This will act as a warning that levels of indebtedness are high and that if indebtedness continues to increase sanctions may be applied by Phoenix.

Phoenix will again notify the User when its Code Credit Limit utilisation is in excess of 80% of its Code Credit Limit. Where this is the case Phoenix will be entitled to reject any Supply Point Confirmations submitted by the User until such time as its Code Credit Limit utilisation is reduced to less than 70%.

During this period Phoenix's Credit and Risk Management Team will discuss with the User ways to rectify the situation e.g. Phoenix may ask for a payment on account to ensure that indebtedness remains within the agreed limit or undertake a review of the User's Code Credit Limit.

**Box 7**

**Section O4.11 of the Code describes the sanctions that may be applied to Phoenix:**

**"4.11 Where and for so long as the Relevant Code Indebtedness of a User for the time being exceeds 80% of the User's Code Credit Limit, the Operator shall be entitled to reject a Supply Meter Point Confirmation under Section L until such time as the User's Relevant Code Indebtedness is reduced to less than 70% of its Code Credit Limit."**

***What happens if a shipper exceeds its Code Credit Limit?***

In view of the notifications Phoenix will send to a User when Code Credit Limit utilisation reaches 70% and the 80%, we would hope to avoid situations where the User's Relevant Code Indebtedness exceeds 100% of its Code Credit Limit.

If Phoenix and the User are unable to agree on an increase in the User's Code Credit Limit or the User has been unable to reduce its level of Relevant Code Indebtedness through paying outstanding invoices or making a prepayment, Phoenix may call on any security that has been provided by the User and/or issue a termination notice stating the date with effect from which the User shall cease to be a party to the Code.

Wherever possible a User will be given a short period of time in which to reduce its levels of Relevant Code Indebtedness to below 100% of its Code Credit Limit.