

12. CHARGES, PAYMENT AND TAX

12.1 Introduction

12.1.1 The Transporter shall, in accordance with the Licence, invoice monthly each Gas Supplier in respect of the amounts that shipper owes it and/or the amounts it owes that Shipper (“**PS Transmission Payments**”) comprising:

- (a) (i) Monthly Postalised Capacity Payments;
- (ii) Monthly Postalised Commodity Payments;
- (iii) Supplemental Payments;
- (iv) Debt Payments;
- (v) Reconciliation Payments; and
- (vii) Debt Repayments.

12.1.2 Subject to Section 12.1.6, the Transporter shall be required to pay to a Shipper, the amount of any Reconciliation Payment due to the Shipper and to account for any Recovery due to the Shipper in accordance with the Licence and this Section 12.

12.1.3 The Transporter shall invoice each Shipper monthly in respect of Code Charges the Shipper owes to it and/or it owes to the Shipper in accordance with this Section 12.

12.1.4 All monies due under the Licence and this Code shall be invoiced and payable in accordance with this section 12.

12.1.5 A Shipper shall, notwithstanding any failure by the Transporter to deliver gas for offtake from the Transportation System in accordance with this Code or the Licence for whatsoever reason, be obliged to pay System Charges, in accordance with this Code, subject only to section 6.13.2 (Emergencies).

12.1.6 Notwithstanding section 12.1.2, the Transporter is required, in accordance with section 12.5.3 or 12.5.4, whichever is applicable, to set-off against any PS Transmission Payments payable by a Shipper to it, the amount of any PS Transmission Payments payable by it to that Shipper.

12.1.7 Notwithstanding section 12.1.3, the Transporter is required, in accordance with section 12.6.3 or 12.6.4, whichever is applicable, to set-off against any Code Charges payable by a Shipper to it, the amount of any Code Charges payable by it to that Shipper.

12.1.8 (a) For the avoidance of doubt, and subject to section 12.1.8(b), to the extent that a Shipper is a Transit Shipper, it shall not be liable to pay PS Transmission Payments under this Code, but shall be liable to pay Code Charges.

- (b) A Transit Shipper shall be liable to pay the Postalised Capacity Charge in respect of Firm Capacity allocated by the Transporter to that Transit Shipper to the extent that that Transit Shipper reserves Firm Capacity on the Transporter's Network, for Gas in respect of which, it does not reserve Firm Capacity on the Network of the Designated System Operator from whose Network it Exits that Gas.

12.2 Suppliers

12.2.1 A Shipper which is not a PS Gas Supplier undertakes to pay to the Transporter all PS Transmission Payments which the Transporter would be entitled to recover from the Shipper in accordance with the Licence if the Shipper held a Gas Supply Licence.

12.2.2 A Shipper which is a PS Gas Supplier:

- (a) acknowledges that the charges payable under section 12.2.1 and section 16.5.2(b) will be taken into account in the calculation of Actual Required Revenue.
- (b) undertakes to pay to the Transporter the PS Transmission Payments which the Transporter is entitled to recover from the PS Gas Supplier in accordance with the Licence.

12.3 Code implementation costs

12.3.1 A Shipper agrees that certain costs, expenses and overheads incurred by the Transporter in respect of the application, operation and implementation of any provisions of this Code shall be added to, and form part of, the Transporter's Actual Required Revenue in accordance with the Licence.

12.4 Non-Payment

12.4.1 In accordance with the Licence, the Transporter shall be entitled to recover from a Shipper by way of Debt Payment the proportion of the aggregate of all Notified Debt specified in a Debt Notice issued by the PSA together with interest on each Non-Payment from the relevant Due Date until the date of the Debt Notice at LIBOR plus 0.75%.

12.4.2 In accordance with the Licence and subject to section 12.5, the Shipper shall be entitled to recover from the Transporter the amount of any Debt Repayment (including any interest paid) specified in a Debt Notice issued by the PSA.

12.5 Content of PS Invoice

12.5.1 Each invoice which the Transporter issues to a Shipper in accordance with section 12.1.1, together with any attachments thereto (a "**PS Invoice**"), shall set out the following:

- (a) the identity of the Shipper;
- (b) the period to which the PS Invoice relates;

- (c) the information required to be stated in section 12.5.2, 12.5.3 and 12.5.4; and
- (d) an unique number by which the PS Invoice may be identified.

12.5.2 Each PS Invoice shall itemise the amounts due in respect of PS Transmission Payments payable by that Shipper to the Transporter, or by the Transporter to that Shipper, and in either case, in accordance with the Licence, by detailing, on a separate line, the sums due for each of the following:

- (a)
 - (i) Monthly Postalised Capacity Payment;
 - (ii) Monthly Postalised Commodity Payment;
 - (iii) Supplemental Payment;
 - (iv) Debt Payment;
 - (v) Reconciliation Payment payable by the Shipper to the Transporter;
 - (vi) Reconciliation Payment payable by the Transporter to the Shipper;
 - (vii) Debt Repayment;
 - (viii) Termination Payment under 16.5.2(b)(i) and (ii) and (iv) ;
- (b) the amount payable in accordance with section 12.5.3(c)
- (c) the amount of tax payable in accordance with sections 12.5.3 and 12.10.

12.5.3 Subject to section 12.5.4, the total amount payable by the Gas Supplier in respect of PS Transmission Payments shall be stated in the PS Invoice and shall be calculated in accordance with this section 12.5.3 as:

- (a) the sum of the amounts detailed in sections 12.5.2(a)(i), (ii), (iii), (iv) and (v); less
- (b) the sum of the amounts detailed in sections 12.5.2(a)(vi), (vii); plus
- (c) the VAT payable on the sum of (a) less (b); plus
- (d) any tax payable on the sum of (a) less (b) in accordance with section 12.11 (apart from that payable under (c)).

12.5.4 Where the sum of 12.5.3(a) less 12.5.3(b) is a negative value, this section 12.5.4 shall apply instead of Section 12.5.3, so that, the total amount payable by the Transporter in respect of PS Transmission Payments shall be stated in the PS Invoice and shall be calculated in accordance with this Section 12.5.4 as:

- (a) the sum of the amounts detailed in sections 12.5.2(a)(vi), (vii); less

- (b) the sum of the amounts detailed in sections 12.5.2(a)(i), (ii), (iii), (iv) and (v); plus

12.6 Content of CC Invoice

12.6.1 Each invoice which the Transporter issues to a Shipper in accordance with section 12.1.3, together with any attachments thereto (a "**CC Invoice**"), shall set out the following:

- (a) the identity of the Shipper;
- (b) the period to which the CC Invoice relates;
- (c) the information required to be stated in section 12.6.2; 12.6.3 and 12.6.4, and
- (d) an unique number by which the CC Invoice may be identified.

12.6.2 Each CC Invoice shall itemise the amounts due in respect of Code Charges payable by that Shipper to the Transporter, or by the Transporter to that Shipper, by detailing, on separate lines, the sums due from or to the Shipper for each of the following:

- (a)
 - (i) Balancing Charges;
 - (ii) Scheduling Charges;
 - (iii) Enhanced Pressure Services;
 - (iv) Termination Payment under 16.5.2(b)(ii) and 16.5.2 (c);
 - (v) Outstanding Debt;
 - (vi) any other sum payable under the Code by or to the Shipper; and
- (b) the amount payable in accordance with Section 12.6.3(c)

12.6.3 Subject to section 12.6.4, the total amount payable by the Shipper in respect of Code Charges, shall be stated in the CC Invoice and shall be calculated in accordance with this Section 12.6.3 as:

- (a) the sum of the all amounts detailed in sections 12.6.2(a)(i), (ii), (iii), (iv), (v) and (vi) which are due to the Transporter; less
- (b) the sum of the amounts detailed in sections 12.6.2(a)(i), (ii), (iii), (iv) , (v) and (vi), which are due to the Shipper; plus
- (c) the VAT payable on the sum of (a) less (b);

12.6.4 Where the sum of 12.6.3(a) less 12.6.3(b) is a negative value, this Section 12.6.4 shall apply instead of Section 12.6.3, so that, the total amount payable by the Transporter to the Shipper in respect of Code Charges shall be stated in the CC Invoice and shall be calculated in accordance with this Section 12.6.4 as:

- (a) the sum of the amounts detailed in sections 12.6.2(a) (i), (ii), (iii), (iv), (v) and (vi), which are payable to the Shipper; less
- (b) the sum of the amounts detailed in sections 12.6.2(a)(i), (ii), (iii), (iv), (v) and (vi), which are payable to the Transporter; plus

12.7 Outstanding Debt

12.7.1 The Transporter shall be entitled to recover monies in respect of all Code Charges, except those arising under section 12.6.2(a)(ii) and (iv), due and owing from a Shipper in accordance with section 12.7.2 from all other Shippers in accordance with this section 12.7.

12.7.2 If any payment of Code Charges, except those arising under section 12.6.2(a)(ii) and (iv), due to the Transporter under this Code, remains unpaid in whole or in part, which was reasonably and properly incurred (it being acknowledged that a debt incurred in respect of which the Transporter had complied with the provisions of section 13 (*Credit Procedures*) shall have been reasonably and properly incurred), after:

- (a) the Due Date; and
- (b) The Transporter has taken any steps available to it under this Code and all other reasonable steps to secure its recovery having taken into account Directions of the Credit Committee in respect of the debt;

the Transporter shall, subject to section 12.7.6, be entitled to recover the outstanding payment (an “**Outstanding Debt**” which expression shall include any sum which the Transporter is entitled to recover in accordance with this section 12.7) in accordance with section 12.7.3, 12.7.4 and 12.7.5.

12.7.3 The Transporter shall:

- (a) be entitled to recover from a Shipper a proportion of the aggregate of all Outstanding Debt together with interest on such amount from any Due Date until the date of payment at LIBOR plus 0.75% compounded Monthly in the next Gas Year in 12 equal instalments not later than 10 business days after the end of each Month;
- (b) deposit any such Outstanding Debt recovered from a Shipper in a separate interest bearing account and apply all sums, including interest, in such account in accordance with section 12.7.7.

12.7.4 The proportion of such amount that the Transporter shall recover from the Shipper shall be the proportion that the aggregate of the Shipper's Firm Allocated Quantities and Interruptible Allocated Quantities in respect of the Month bears to the aggregate of all Shipper's Firm Allocated Quantities and Interruptible Allocated Quantities in respect of the Month provided that in any Month in which such quantities shall all be zero each Shipper shall be deemed to have a Firm Allocated Quantity of 1MWh in relation to each Exit Point in respect of which it has an Exit Point Registration.

12.7.5 In the case of a liquidator, receiver or an administrator or an examiner being appointed over any part of the assets of a Shipper or any event similar, equivalent or analogous to any of such events occurring in relation to the

Shipper in Great Britain or any other jurisdiction any payment due to the Transporter under this Code or the Licence which was reasonably and properly incurred remaining unpaid after the Due Date shall, upon such event occurring, be an Outstanding Debt recoverable in accordance with this section 12.7.

12.7.6 The Transporter shall, to the extent that it recovers any Outstanding Debt from a Shipper in respect of which it subsequently receives a payment under a liquidation or administration, pay an amount equal to such payment received to the Shippers from which the Outstanding Debt was recovered pro rata to the proportions in which the Outstanding Debt was recovered.

12.7.7 A Shipper acknowledges that the Transporter shall apply all sums deposited in and interest earned on the account referred to in section 12.7.3 (b) in making an immediate payment of the Outstanding Debt due to the Transporter excluding any amount payable in accordance with section 16.5.

12.8 Periods of Invoicing

12.8.1 Each Month the Transporter shall, as soon as reasonably practicable and in any event not later than the 10th business day after the end of each Month (the “**Invoice Day**”), submit a PS Invoice and a CC Invoice to each Shipper

12.9 Payment

12.9.1 A Shipper shall:

- (a) pay to the PoT Account any balance specified in a PS invoice in accordance with section 12.5.3 by the Due Date; and
- (b) pay to the Transporter any balance specified in an Invoice in accordance with 12.6.3 to the Transporter’s account by the Due Date.

12.9.2 The Transporter shall:

- (a) pay to a Gas Supplier any balance specified in a PS Invoice in accordance with section 12.5.4 by the eighth business day following the Due Date; and
- (b) pay to the Shipper any balance due in a CC Invoice in accordance with section 12.6.4 by the Due Date.

12.9.3 All payments made under this Code to:

- (a) the PoT Account shall be made in Pounds Sterling by direct bank transfer or equivalent instantaneous transfer of funds to the following, or such other account of which the Transporter may, from time to time, give a Shipper written notice:

Account name: Postalisation Trustee Account

Bank: [•]

Sort Code: [•]

Account number: [●]

- (b) The Transporter's account shall be made in Pounds Sterling by direct bank transfer or equivalent instantaneous transfer of funds to the following, or such other account of which the Transporter may, from time to time, give a Shipper written notice:

Account name: The Transporter Account

Bank: [●]

Sort Code: [●]

Account number: [●]

12.9.4 Any payment under this Code to a Shipper shall be made in Pounds Sterling by direct bank transfer or equivalent instantaneous transfer of funds to such place in the United Kingdom of which the Shipper may, from time to time, give the Transporter written notice.

12.9.5 All amounts payable under this Code shall be paid:

- (a) free and clear of any restriction, reservation or condition; and
- (b) except to the extent, if any, required by law, without deduction or withholding in respect of tax or on account of any amount due or to become due to the paying party, whether by way of set-off, counterclaim or otherwise.

12.10 Interest

If a Shipper or the Transporter fails to pay any sum due on the Due Date, (other than payments which are notified by a Shipper as being the subject of a bona fide dispute in accordance with section 12.11), interest on such overdue amount shall accrue, both before and after judgement, at LIBOR plus 3% compounded monthly from the Due Date until the date payment is made.

12.11 Disputed Invoice

Where any sum invoiced in a CC Invoice in accordance with the provisions of this section 12 is the subject of a bona fide dispute and the Shipper provides the Transporter with full details of the reasons as to why the disputed portion is disputed within 14 business days of receipt by the Shipper of the CC Invoice to which the dispute relates, the Shipper or the Transporter, whichever is applicable, shall:

- (a) pay the undisputed portion of the CC Invoice by the Due Date; and
- (b) after settlement of the dispute, pay any amount agreed or determined to be payable within 7 days of such agreement or determination and interest on such amount shall accrue and be payable from the Due Date to the date of payment (both before and after any judgement) at LIBOR plus 3% compounded monthly from such Due Date until the date of payment.

12.12 Taxes and withholdings

- 12.12.1 If, in respect of any payment to be made to the PoT Account or the Transporter by a Shipper, any deduction or withholding is required to be made by the law of any country other than a country of the United Kingdom, the Shipper shall:
- (a) ensure that the amount of such withholding or deduction does not exceed the minimum so required; and
 - (b) forthwith pay into the PoT Account or to the Transporter, as appropriate such additional amounts as will ensure that the net amount received by the Transporter will be equal to that which would have been received had no deduction or withholding been made.
- 12.12.2 All amounts expressed as payable by a Shipper under this Code are exclusive of Value Added Tax and accordingly the Shipper shall pay Value Added Tax where payable in respect of and in addition to any such amount.
- 12.12.3 A Shipper shall be responsible for the payment of any taxes, duties or other levies imposed on the Transporter, whether or not at the time of entering into this Code, in relation to the delivery, transportation, offtake, supply, or other disposition of its gas in connection with this Code other than the Transporter's corporation tax.
- 12.12.4 A Shipper shall indemnify, keep indemnified and hold harmless the Transporter from and against any charges, costs, claims or demands whatsoever arising in connection with the taxes, duties or other levies for which the Shipper is responsible in accordance with section 12.12.3 and any fines, penalties, or interest which may be charged to or claimed or demanded from the Transporter in connection with the non-payment or delayed payment of such taxes by the Shipper.
- 12.12.5 An Invoice shall include the amount of any fiscal imposts, taxes, VAT (or similar imposts), duties or levies imposed, whether or not in effect at the time of the parties entering into this Code, upon delivery, transportation, supply, appropriation or other disposition of a Shipper's gas.
- 12.12.6 If the Transporter is required to pay any sum to a Shipper in accordance with this Code it shall be entitled to deduct from such sum any amount that it is legally required to deduct and shall provide reasonable details of any amount so deducted.

12.13 Audit

- 12.13.1 A PS Gas Supplier may, upon reasonable notice and during reasonable hours, subject to section 19 (Confidentiality) and any obligations of confidentiality to which the Transporter is subject, have an independent auditor of international repute, examine the books and records of the Transporter to the extent necessary to verify the accuracy of any accounting statement, charge or computation made in accordance with this Code provided that:

- (a) the PS Gas Supplier has exercised its right under this section 12.13 by giving written notice to the Transporter whilst it is, or within 24 months of it ceasing to be, a PS Gas Supplier;
- (b) such books and records need not be preserved longer than a period of 6 years after the end of the Gas Year to which such books or records refer unless they relate to an existing dispute, in which case they will be retained until the end of such dispute; and
- (c) that if such verification reveals any such inaccuracy the Transporter shall within 40 business days after such inaccuracy is established submit to the PS Gas Supplier a statement showing all necessary adjustments to the accounting statement, charge or computation and the Transporter or the Shipper (as appropriate) shall, within 14 business days after the date of such statement make payment to the other party of the sum (if any) so due to that party.

12.13.2 The cost of any such audit shall be borne by the PS Gas Supplier which requested it unless any such audit shall show an adjustment is necessary giving rise to a lesser charge to the PS Gas Supplier than had been charged (an “**Adjustment Amount**”) in which case the reasonable cost of such an audit shall be treated as an Operating Cost in accordance with the Licence provided that:

- (a) such audit costs do not exceed the Adjustment Amount; and
- (b) the Adjustment Amount in aggregate exceeds £25,000 (adjusted at the start of each Gas Year in line with the arithmetic annual average value for the previous twelve months of the CPI published by the Office of National Statistics each month in respect of all items).

13. CREDIT PROCEDURES

13.1 Definitions

13.1.1 Except as expressly provided in this Code or where the context otherwise requires, all terms that are defined in the Licence, where used in this section 13, shall have the meaning ascribed to them in the Licence.

13.1.2 The following terms, when used in this section 13, except where expressly stated to the contrary or unless the context otherwise requires, shall have the corresponding meanings set out below:

“Accounting Ratios” means FFO Interest Coverage and FFO to Total Debt;

“Affiliate” means, in relation to a body corporate, any subsidiary undertaking or parent undertaking of such body corporate, and any subsidiary of any such parent undertaking for the time being;

“Average Code Charges” means the mean average Code Charge cost per unit of gas Exited from the Transporter’s Network, calculated by taking the sum of all Code Charges invoiced to Shippers by the Transporter in the 12 Month period ending on the Month before the date in which the calculation is required to be performed, and dividing such sum by the quantity of gas Exited from the Transporter’s Network over the same 12 Month period. For the avoidance of doubt, for this purpose the quantity of gas Exited includes that amount of gas Exited by Transit Shippers at the Connected System Exit Point.

“CPI” means the General Index of Consumer Prices – All Items (1996 = 100) as published in the Office of National Statistics “Monthly Digest of Statistics” (Series Identifier CHVJ) or, if such index is no longer published, such comparable alternative as the Authority deems appropriate.

“Directions” means any direction made by the Credit Committee in accordance with the Terms of Reference;

“Distribution Utility” means a utility that operates in a smaller service area than a transmission utility

	with increased exposure to the local market conditions and that delivers to customers at a level that can be used in homes and businesses.
“Equivalent Agency”	shall have the meaning ascribed it in section 13.4.1;
“Equivalent Rating”	shall have the meaning ascribed it in section 13.4.1;
“FFO Interest Coverage”	means the ratio of net income from continuing operations plus depreciation, amortisation, deferred income taxes, other non-cash items, to gross interest;
“FFO to Total Debt”	means the ratio of net income from continuing operations plus depreciation, amortisation, deferred income taxes, other non-cash items to total debt
“Forecast Postalised Charges”	means, with respect to a Shipper, that Shipper’s Forecast Postalised Capacity Charge, Forecast Postalised Commodity Charge, and, for the purposes of this Code, its Forecast Interruptible Charge.
“Generation Utility”	means a utility involved in the actual production of electricity.
“Integrated Utility”	means a utility involved in both Distribution and Transmission operations.
“Level of Provided Credit”	means in respect of a Shipper or Prospective Shipper the sum of Secured Credit and Unsecured Credit which it has provided to the Transporter in accordance with this section 13;
“Level of Required Credit”	means in respect of a Shipper or Prospective Shipper the minimum level of credit which the Transporter shall require such Shipper or Prospective Shipper to establish and maintain in accordance with this section 13;
“Maximum Allowed Unsecured Credit”	has the meaning ascribed to it in section 13.4.2.
“Net Assets”	means, on any particular date, Total Assets minus Total Liabilities, as of such date;

“Secured Credit”	shall have the meaning ascribed it in section 13.4.1;
“Securer”	shall have the meaning ascribed it in section 13.4.2;
“Terms of Reference”	means the Terms of Reference appended to this Code in Appendix [];
“Total Assets”	means, on any particular date, all assets of the Shipper or Prospective Shipper (as appropriate) which, in accordance with generally accepted accounting principles in the country in which that Shipper or Prospective Shipper (as appropriate) is organised and on a basis consistent with prior periods, would be classified as assets upon the balance sheet of that Shipper or Prospective Shipper as of such date;
“Total Liabilities”	means, on any particular date, all liabilities of the relevant Shipper or Prospective Shipper which, in accordance with generally accepted accounting principles in the country in which that Shipper or Prospective Shipper is organised and on a basis consistent with prior periods, would be classified as liabilities upon the balance sheet of that Shipper or Prospective Shipper as of such date;
“Transmission Utility”	means a utility that operates in large, long life network assets that transport the utility in bulk form, usually at high voltages/pressures/volumes from a source of supply to a distribution system;
“Unsecured Credit”	shall have the meaning ascribed it in section 13.4.1.
“Utility Categorisation”	means one of the following: a Transmission Utility, a Distribution Utility, an Integrated Utility or a Generation Utility.

13.2 Application to determine Level of Required Credit

- 13.2.1 (a) A Prospective Shipper shall, in accordance with section 17.2.2, request the Transporter to determine the Level of Required Credit that the Prospective Shipper is required to establish in order for it to reserve and utilise Firm Capacity and/or utilise Interruptible Capacity.

- (b) A Shipper shall provide a Level of Required Credit Application from time to time, on the occurrence of any of the events specified in sections 13.7.1(a) to (f).

13.2.2 Where a Prospective Shipper requests a determination by the Transporter in accordance with section 17.2.2, where a re-assessment is required pursuant to one or more of sections 13.7.1(a) to (e) or where a Shipper requests a re-assessment pursuant to section 13.7(f) within a Gas Year to which the re-assessment relates, such Prospective Shipper or Shipper (as appropriate) shall provide the Transporter with the following:

- (a) its Forecast Supplier Quantity for the next 12 Months;
- (b) a forecast of the Firm Capacity it will apply for within the next 12 Months; and
- (c) if applicable, the information required by section 13.4.6

in the Prescribed Form (a “**Level of Required Credit Application**”), indicating, in the case of both (a) and (b) above, what proportion of each figure is attributable to the first Gas Year to which such application relates.

13.2.3 Such a Prospective Shipper or Shipper shall provide, together with its Level of Required Credit Application, a copy of its most recent audited accounts and such further information as the Transporter may reasonably require for the purposes of determining a Shipper’s Level of Required Credit.

13.3 Calculation of the Level of Required Credit

13.3.1 Subject to section 13.3.4 the Level of Required Credit that a Shipper or Prospective Shipper shall be required to establish shall be of a value equal to 80 per cent of the Transporter’s estimate of the sum of:

- (a) the Forecast Postalised Charges that the Shipper or Prospective Shipper will incur in the next 12 Months on the Transporter’s System; plus
- (b) a forecast of the Code Charges that the Transporter reasonably estimates the Prospective Shipper or Shipper will incur during the next 12 Months on the Transporters System calculated in accordance with section 13.3.3.

13.3.2 The Transporter shall estimate the Forecast Postalised Charges that a Shipper or Prospective Shipper is likely to incur in the 12 Months, (the “**Credit Period**”) based only upon the following:

- (a) if it is a Shipper, the sum of:
 - (i) the higher of:
 - (aa) the Shipper’s estimate in accordance with section 13.2.2 (a); and

- (bb) the Forecast Supplier Quantity which the Transporter reasonably determines that the Shipper will Exit from the Transporter's System over the Credit Period; and
- (ii) the higher of:
 - (aa) its estimate in accordance with section 13.2.2(b); and
 - (bb) the Firm Capacity which the Shipper will hold during the Credit Period;
- (b) if it is a Prospective Shipper, its estimate in accordance with section 13.2.2(a) and (b), unless section 20.13 applies and, by virtue of the application of that section, the Prospective Shipper would be allocated a higher amount of Firm Capacity, in which case such higher amount shall be used;
- (c) The Transporter's calculation of the Forecast Postalised Charges applicable to (a) and (b) above shall be calculated as the sum of:
 - (i) that element of the Forecast Postalised Charges payable in respect of the Firm Capacity held by the Shipper or Prospective Shipper in the Credit Period;
 - (ii) that element of the Forecast Postalised Charges that will be payable in respect of the volume of gas to be Exited by the Shipper or Prospective Shipper in the Credit Period; and
 - (iii) with respect to the Gas Year beginning on 1 October 2006, and all Gas Years thereafter, the Forecast Interruptible Charge that will be payable by the Shipper in the Credit Period;

which shall in each case be calculated in accordance with the Licence.

13.3.3 The Transporter's calculation of the Code Charges shall be calculated as an amount equal to 80% of the Forecast Supplier Quantity calculated:

- (a) in the case of a Shipper, in accordance with section 13.3.2(a)(i); or
- (b) in the case of a Prospective Shipper, in accordance with 13.2.2(a);

multiplied by the Average Code Charge.

13.3.4 For the avoidance of doubt, a Transit Shipper's Level of Required Credit shall be calculated solely in accordance with section 13.3.3

13.4 Establishing a Level of Provided Credit

13.4.1 The Transporter shall determine the Level of Provided Credit for a Shipper or a Prospective Shipper by reference to security provided by that Shipper or Prospective Shipper in any one or combination of the following:

- (a) subject to section 13.4.2, provision of security by way of "long term" Baa or higher investment grade rating as defined by Moody's, an Equivalent Rating from an Equivalent Agency, or by way of an Equivalent Rating based on the Accounting Ratios specified in section 13.4.4;
- (b) subject to section 13.4.2, provision of security given by way of guarantee or letter of credit from a Government or Affiliate (at least 50% of which is controlled by that Government or Affiliate) itself holding at least a "long term" Baa investment grade as defined by Moody's, an Equivalent Rating from an Equivalent Agency, or by way of an Equivalent Rating based on the Accounting Ratios specified in section 13.4.4 which in any event, must be given substantially in the form of the guarantee set out in Appendix 4, or by way of a Government or Affiliate (at least 50% of which is controlled by that Government or Affiliate), being a party to the relevant Accession Agreement with payment obligations in respect of the entire consideration thereunder;
- (c) establishment of an escrow or other appropriate deposit which shall be with a UK branch of a financial institution with a "long term" A3 investment grade as defined by Moody's or an Equivalent Rating from an Equivalent Agency and which shall:
 - (i) be held in the name of the Shipper;
 - (ii) require the signatures of duly authorised representatives of both the Shipper and the Transporter in order to authorise any withdrawals;
 - (iii) revert in title to the Transporter in the event of Shipper default to the extent of amounts accrued and due to the Transporter from the Shipper whether or not invoiced;
 - (iv) include a penalty free notice period for payments out of the account of not more than 30 days;
- (d) guarantee or irrevocable standby letter of credit issued by a UK branch of a financial institution with a long term credit rating of not less than A3 as defined by Moody's or an Equivalent Rating from an Equivalent Agency, issued in favour of the Transporter in the Prescribed Form; and
- (e) depositing with the Transporter bonds with a maximum remaining term of 12 months issued by a UK financial institution with a long term rating of A or above, or depositing with the Transporter treasury bills with a maximum remaining term of no more than 12 Months,

where "**Equivalent Agency**" means Fitch, IBCA, or Standard and Poors and "**Equivalent Rating**" shall be construed accordingly. Security given by way of any of the methods described in (a) or (b) is "**Unsecured Credit**", and security given by way of any of the methods described in (d) or (e) is "**Secured Credit**".

13.4.2 The Maximum Allowed Unsecured Credit which the Transporter may grant to a Shipper or Prospective Shipper based on Unsecured Credit shall be limited to a value equal to the lower of:

- (a) 10% of the Securer's Net Assets; and
- (b) the amount listed in the table set out in section 13.4.3 under the column heading "Maximum Allowed Unsecured Credit" on the row corresponding to that Securer's credit rating,

or,

the amount listed in the table set out in section 13.4.3 under the column heading "Maximum Allowed Unsecured Credit" on the row corresponding to that Securer's Notional S&P Credit Rating as determined by the Transporter in accordance with section 13.4.5,

where the "Securer" is, the Shipper or Prospective Shipper (whichever is applicable) if the Unsecured Credit is provided under section 13.4.1(a), or the guarantor if the Unsecured Credit is provided under section 13.4.1(b).

13.4.3 Maximum Allowed Unsecured Credit shall be determined in accordance with the following table:

Moody's Credit Rating	Standard & Poor Credit Rating	Maximum Allowed Unsecured Credit (£)
Aaa	AAA	30,000,000
Aa	AA	22,000,000
A	A	16,000,000
Baa	BBB	10,000,000

13.4.4 Unsecured Credit provided by a Securer under sections 13.4.1(a) and/or (b) by way of Accounting Ratio shall be assigned a Notional S&P Credit Rating in accordance with the following tables and section 13.4.5:

(a)

Ratio Ranges for Transmission Utilities			
Accounting Ratio	Notional S&P Credit rating		
	<u>AA</u>	<u>A</u>	<u>BBB</u>
FFO Interest Coverage	3.0 to 4.0	2.0 to 3.3	1.5 to 2.0
FFO to Total Debt	12 to 17	10 to 15	5 to 10

(b)

Ratio Ranges for Distribution Utilities			
Accounting Ratio	Notional S&P Credit rating		
	<u>AA</u>	<u>A</u>	<u>BBB</u>
FFO Interest Coverage	5.0 to 7.0	3.0 to 5.0	2.0 to 3.0
FFO to Total Debt	30 to 40	13 to 25	8 to 16

(c)

Ratio Ranges for Integrated Utilities			
Accounting Ratio	Notional S&P Credit rating		
	<u>AA</u>	<u>A</u>	<u>BBB</u>
FFO Interest Coverage	4.0 to 5.5	2.5 to 3.5	1.7 to 2.7
FFO to Total Debt	20 to 30	12 to 20	7 to 15

(d)

Ratio Ranges for Generation Utilities			
Accounting Ratio	Notional S&P Credit rating		
	<u>AA</u>	<u>A</u>	<u>BBB</u>
FFO Interest Coverage	5.5 to 8.0	3.5 to 5.5	2.5 to 4.0
FFO to Total Debt	30 to 45	20 to 35	10 to 20

13.4.5 The Transporter, acting reasonably, and taking into account a Securer's submissions under section 13.4.6(c), shall decide which Utility Categorisation applies to the Securer, shall reference the applicable table in 13.4.4(a), (b), (c) or (d) accordingly and,

(a) in the event that both the FFO Interest Coverage ratio and the FFO to Total Debt ratio for that Securer yield values that fall within the ranges listed under the same Notional S&P Credit Rating column value, shall ascribe to the Securer that Notional S&P Credit Rating,

or,

(b) in the event that the FFO Interest Coverage ratio and the FFO to Total Debt ratio for that Securer yield values that do not fall within the ranges listed under the same Notional S&P Credit Rating, shall ascribe to the Securer that Notional S&P Credit Rating that will yield the lower Maximum Allowed Unsecured Credit value by virtue of section 13.4.2(b).

13.4.6 A Securer providing, or intending to provide Unsecured Credit by way of an Accounting Ratio, shall provide the Transporter with the following information at the same time as, and each time, it provides the Transporter with a Level of Required Credit Application:

- (a) its most recently published set of annual audited accounts;
- (b) calculations of the Accounting Ratios specified in 13.4.4; and
- (c) a submission requesting one of the Utility Categorisations in 13.4.4, based on the information set out in its annual audited accounts.

13.4.7 The Transporter shall provide to each PS Shipper and to the Authority annually [on the first business day of October] and on the demand of any PS Shipper within 10 Business Days, a list of Shippers that meet some or all of their Level of Required Credit through the provision of Unsecured Credit detailing the form of that Unsecured Credit and the extent to which it is provided.

13.4.8 The Transporter, a Designated Operator or a PS Shipper may, at any time, call a Credit Committee meeting in accordance with 13.6.2, to request that a

Shipper be disallowed from providing all or any part of its Level of Provided Credit through the provision of all or any form of Unsecured Credit (an “**US Default**”)

13.4.9 The Maximum Allowed Unsecured Credit will be adjusted on 1 October in each Gas Year by calculating the percentage difference between:

- (A) the CPI for September immediately preceding the start of the relevant Gas Year; and
- (B) the CPI for September in the preceding Gas Year;

and increasing the Maximum Allowed Unsecured Credit figures listed in section 13.4.2, as amended for any previous Gas Years in accordance with this section 13.4.9, by that percentage difference.

13.4.10 Where a Shipper provides any form of Unsecured Credit as security it shall notify the Transporter immediately of any change from time to time in its, or in the case of security provided under section 13.4.1(b), its parent’s or government’s credit rating or Accounting Ratios.

13.4.11 If the Maximum Allowed Unsecured Credit permitted under section 13.4.2 (as adjusted from time to time under section 13.4.9) is less than the Level of Required Credit notified to the Shipper in accordance with section 13.5, the Shipper shall provide an amount of Secured Credit equal to at least the difference.

13.5 Determination of whether the Level of Required Credit has been established

13.5.1 Within 10 business days of receipt of a Level of Required Credit Application (or from time to time pursuant to section 13.9) the Transporter shall determine and inform the Shipper or Prospective Shipper of that determination by issuing to it a notice in accordance with section 20.5 specifying:

- (a) the Level of Required Credit that that Shipper or Prospective Shipper shall be required to establish; and
- (b) to what extent the Level of Required Credit has been met through the provision of Unsecured Credit and the amount, if any, of Secured Credit required to make up any deficiency.

13.5.2 A Shipper or Prospective Shipper whose Level of Provided Credit is less than its Level of Required Credit, shall have 10 business days from the issue of such notice by the Transporter to provide such additional security as is required to meet the Level of Required Credit, failing which, in the case of:

- (a) a Prospective Shipper its Level of Required Credit Application shall be rejected; and
- (b) a shipper, the Transporter shall convene a meeting of the Credit Committee in accordance with section 13.6.1(b).

13.6 Credit Committee

- 13.6.1 The Transporter shall convene a Credit Committee meeting if any Shipper defaults in any of the following ways (each a “**Default**”);
- (a) the non-payment by the Due Date or prospective non-payment of any PS Transmission Payment or Code Charge by any shipper (an “**NPTP Default**” and an “**NPCC Default**” respectively),
 - (b) any failure or prospective failure by a Shipper to provide or maintain its Level of Provided Credit above its Level of Required Credit (an “**LPC Default**”); and
- 13.6.2 The Transporter, a Designated Pipeline Operator or a PS Gas Supplier may, at any time, call a Credit Committee meeting if it reasonably believes that the Security of the System would be enhanced by the Credit Committee giving a Direction, subject only to the Authority’s consent, to the effect that a Shipper or Prospective Shipper be barred from being able to provide its Level of Provided Credit by way of Unsecured Credit (an “**US Default**”).
- 13.6.3 The Credit Committee shall operate and be conducted in accordance with the Terms of Reference.
- 13.6.4 The Transporter and each Shipper shall promptly and fully comply with all Directions of the Credit Committee issued from time to time provided that, where such Directions require the approval of the Authority, such approval has already been given.
- 13.7 **Reassessment of Level of Required Credit and the Level of Provided Credit**
- 13.7.1 The Transporter will re-assess a Shipper’s Level of Required Credit in any of the following circumstances:
- (a) 12 Months after the Shipper Level of Required Credit was last determined or reassessed;
 - (b) a Shipper gaining an additional Exit Point Registration;
 - (c) a Shipper applying to acquire additional Firm Capacity whether by an application or transfer;
 - (d) a Shipper’s Forecast Supplier Quantity exceeding the level it estimated in accordance with section 13.2.2 (a);
 - (e) the Credit Committee directs the Transporter to make a re-assessment; or
 - (f) on request from that Shipper at any time.
- 13.7.2 The Transporter will re-assess a Shipper’s Level of Provided Credit in any of the following circumstances:

- (a) 12 Months after the Shipper Level of Provided Credit was last determined or re-assessed.
- (b) in the event of any form of Unsecured Credit being disallowed by the Credit Committee.
- (c) 1 Month before the expiry or on notice of termination (where terminated before its term) of a guarantee or instrument of security unless such termination occurs at the same time as that guarantee or security is renewed on substantially the same terms for an extended term;
- (d) a downgrading in the Shipper's or its guarantor's credit rating;
- (e) the Credit Committee directs the Transporter to make a re-assessment; or
- (f) on request from that Shipper at any time.

13.7.3 Such re-assessments of the Level of Required Credit and the Level of Provided Credit shall be conducted in accordance with the preceding provisions of this section 13 as if a new Level of Required Credit Application were submitted on the date of occurrence of any of the events specified in section 13.7.

13.8 Duty to provide forecasts and information relating to the calculation of the Postalised Charges

13.8.1 Forecasts and information relating to following Gas Years

- (a) A Shipper shall, in each Gas Year, provide the following forecasts and information in respect of the next Gas Year ("GY") and each of the following four Gas Years inclusive ("GY+1" to "GY+4" respectively) (the "Forecast Figures") to the Transporter no later than the tenth Business Day in June:
 - (i) the total of all Forecast Supplier Quantities in a Gas Year (the "Forecast Annual Quantity") together with:
 - (aa) an explanation of the reasons why any Forecast Annual Quantity in respect of any of the Gas Years GY+1 to GY+4 is expected to be greater or less than the Forecast Annual Quantity in respect of GY;
 - (bb) a breakdown of the Forecast Annual Quantities in respect of each Exit Point in each relevant Gas Year; and
 - (cc) a breakdown showing the proportions of the Forecast Annual Quantity and aggregated Forecast Supplier Quantities attributable to each Quarter of GY;
 - (ii) the assumptions on which the figures provided under section 13.8.1(a)(i) were based:

- (aa) which for power stations shall include but not be limited to load factors, generation output and efficiency;
- (bb) which for Shippers to distribution networks shall include but not be limited to numbers of consumers and average forecast quantity per consumer;

and in either case shall include an explanation of any material difference between such forecasts for the year GY and the forecast in respect of the then current Gas Year; and

- (iii) the Initial Firm Capacity in respect of GY and a forecast of Initial Firm Capacity in respect of GY+1 to GY+4 inclusive, together, if applicable, with an explanation of the reasons why any forecast is higher or lower than the Initial Firm Capacity figure for GY.
- (b) A Shipper shall use its reasonable endeavours to ensure that all Forecast Figures supplied to the Transporter in accordance with Section 13.8.1(a) are as accurate as possible having regard to the information available to that Shipper and shall provide to the Transporter with the provided under section 13.8.1(a) (the “**Quantity Figures**”), a full explanation as to how they have been calculated.
 - (c) A Shipper shall promptly provide to the Transporter such further information or explanation and access to relevant documents and records, in each case as the Transporter reasonably requires, in relation to the Quantity Figures in order to satisfy its obligation to present similar information under Condition 2A.2.3.1 of its Licence.

13.8.2 Provision of Quarterly Information

- (a) In respect of each Gas Year commencing on or after the Designation Date, the Transporter shall provide each Shipper with a breakdown of the Quarterly Exit Quantities by Exit Point for the relevant Quarter and any other information required to be provided by the Transporter on a Quarterly basis under the Licence, no later than 10 Business Days after the end of each Quarter in a Gas Year.
- (b) At the same time as the Transporter provides the figures required under section 13.8.1(a), the Transporter shall confirm to each Shipper, whether it is aware of or has reason to believe that the Forecast Figures provided in accordance with Condition 2A.2.3.1(a) of the Licence for the remainder of the current or any future Gas Years will or may be materially inaccurate. If the Transporter suspects such material inaccuracy, it shall provide details of the extent of such inaccuracy, and its reasons for such belief.
- (c) The Transporter may fulfil its obligations under this section 13.8.2, by submitting, together with one or more other Designated Pipe-line Operators, a joint report which shall comply with this Condition 13.8.2.