

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0609
"Changes to Energy Balancing Credit Arrangements for the Trading System Operator"
Version 1.0

Date: 15/01/2003

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Following recent discussions at the Energy Balancing Credit Committee (EBCC) it has become apparent that the present Energy Balancing Credit regime produces an unnecessary risk to the continued viability of existing balancing arrangements.

This risk stems from the application of the Energy Balancing Code Credit Rules (EBCR) to the Trading System Operator (TSO). There is recognition from members of the EBCC that the TSO is in a unique situation, for which the EBCR do not make provision, where it does not have direct control of its trading positions. This situation arises because of the nature of the On the Day Market, in which Trading Participants initiate all transactions while the TSO acts as central counterparty in order to maintain the participants' anonymity. The TSO's position is intrinsically balanced in both energy and value at all times, but its only control over the values of its trades is achieved by restricting Trading Participants' accounts.

When the system is long and Transco sell gas, the trades undertaken lead to an increase in the TSO's energy balancing indebtedness. Transco's selling is determined by the length of the system, which is in turn determined by the aggregation of the notified position of individual Users. Transco therefore has little discretion with regard to the volumes to be sold, and any restriction of its ability to trade as required would lead to invocation of Contingency Balancing Arrangements (reintroduction of the flex mechanism).¹

Through the occurrence of events beyond its control, the TSO could therefore be required to put in place a Secured Credit Limit of theoretically unlimited value at short notice. An event of this type occurred in December 2001 when Transco's application of the provisions set out in the Network Code Supplement and the EBCR led to the TSO having to provide significantly increased levels of security for two months at very short notice. Had the TSO been unable to meet this requirement the On the Day Market would have become unavailable to Transco resulting in Contingency Balancing Arrangements being invoked.

The credit regime embodied in the Network Code Supplement and the EBCR exists to protect Users collectively from potential financial loss as a result of User default. This proposal aims to extend those rules to make provision for the unique position of the TSO.

It should be noted that members of the EBCC have requested Transco to raise this proposal on behalf of EnMO, as, as a Restricted User it is unable to raise Network Code Modifications itself.

1. It is important to note, however, that this would have no effect on the TSO's ability to meet its financial obligations with regard to existing transactions and that the risk is of loss of service availability, not of financial default.

Nature of Proposal

It is proposed that the Network Code Supplement should be changed to introduce an additional trigger requiring action by Transco in the event that the TSO's energy balancing indebtedness exceeds 60%, rather than 85%, of its Secured Credit Limit. Transco shall be required to convene an emergency operational meeting of the EBCC to determine action to be taken. The proposal further seeks to extend the provisions within both the Network Code Supplement and EBCR in the following areas, in order that the appropriate action may be determined.

- To grant the EBCC the powers to make such information requests to the TSO and Transco as and when it deems relevant, to include but not be limited to:
 - trend analysis of trades and data on movement in the TSO's energy balancing indebtedness, together with any actions taken (e.g. Cash Call / Failure to Pay Notices Issued) for the relevant period, determined by the EBCC;
 - the security that the TSO has in place from its customers, credit insurance cover if the security were to fail and any indication that failure was likely, current credit limit and credit usage data. (Note that individual customers should not be identified without their prior agreement.)
 - cash flow projections, to cover the period up to which the TSO forecasts its indebtedness to fall below 60% of its secured credit limit, and assumptions made

All data provided by the TSO should be subject to verification from independent audit, the scope of such audit to be determined by the EBCC. It is the EBCC's view that it would be appropriate to engage the TSO's auditors to carry out this role, with the cost of such audits being borne by the TSO. The auditor will report directly to the EBCC. It is expected that such a report would include, but not be limited to, confirmation of compliance with stated processes and procedures of the TSO, e.g. security from customers, validity of credit insurance, and analysis of the cash flow projections including the appropriateness of the assumptions made and sensitivities around these assumptions.

- Introduction of provisions extending the powers and duties of the EBCC to determine acceptable levels of exposure and to allow the TSO to trade in excess of 100% of its Secured Credit Limit to a maximum level determined by EBCC with triggers for periodic review.
- Provisions under section X 3.2.4 allowing Transco to withhold payments to the TSO in the event that its exposure exceeds 85% of its secured credit limit or such other limit as is agreed by EBCC under bullet point 1 above until such time that its exposure is reduced below that same limit.
- To suspend Transco's obligations under S3.6 to pay credit interest to the TSO in the event such payment is suspended for the purposes outlined above.

Nothing in this proposal changes the existing EBCR, their application to the TSO or the remedies within the team.

Purpose of Proposal

The benefits of implementing the Proposal are to reduce the risk of loss of availability of the On the Day Market for system balancing as described above and to introduce a notice period should the risk nevertheless materialise and Contingency Balancing Arrangements be invoked.

Consequence of not making this change

Experience has shown that there is potential for the TSO's energy balancing indebtedness to escalate rapidly at short notice. The risk of it not being able to comply with Transco's request to source increased security within very limited timescales is therefore very real. In such a situation the TSO would be left with little alternative to restricting Transco's use of the On the Day Market, probably resulting in Contingency Balancing Arrangements being invoked.

Area of Network Code Concerned

Supplement, Energy Balancing Credit Rules

Proposer's Representative

Alan G Raper (Transco)

Proposer

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Signature

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