Modification Report
RG0252 Proposal 13a: Removal of DNOs as Users from UNC TPD V3 and V4
Modification Reference Number 0311
Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

WWU raised Review Group 0252 "Review of Network Operator Credit Arrangements" in April 2009. This was convened to discuss the appropriateness of the existing credit management arrangements , taking into account the many credit related issues which had occurred since the publication of Ofgems "Best practice guidelines for gas and electricity network operator credit cover" (BPG) document.

This specific Modification Proposal (13a) is an alternative to Modification Proposal (13) raised by Scotia Gas Networks (SGN). However, it has been raised as a standalone Modification Proposal due to the restrictions on the timing of raising Alternative Modification Proposals. The Modification Proposal mirrors the intent within SGN's Modification Proposal of seeking to remove the current credit requirement within UNC (V3.3.4) which would lead to the unnecessary over securitisation of DNO's from October 2012. Removing this DNO reference would additionally remove the differential treatment which currently exists whereby NGD and NTS are a single entity for credit purposes (and as such NGD are not governed by this credit requirement but the iDNs are).

This Modification Proposal also seeks to amend other anomalies within UNC TPD Sections V3 and V4 which if amended will better facilitate the Transporters Licence conditions (against the existing UNC), than the Modification Proposal raised by SGN (proposal 13).

The table below sets out the anomalies in UNC TPD V impacted by this proposal contrasted with that raised by SGN

	Proposal 13 (SGN)	Proposal 13a (WWU)
1. Removal of 12 month iDN securitisation requirement for NTS Exit Capacity charges	YES	YES
2. Removal of circa 51 days iDN securitisation requirement for all applicable charge types	NO	YES
3. Removal of requirement for IDNs to securitise against DN Pension charges	NO	YES
4. Removal of unworkable DN Termination facility in UNC V4	NO	YES

5. Removes unintended credit consequences of Mods 116, 127, 195AV and any future DNO charges	PARTIALLY	YES
6. Removes differential treatment of DNs by NTS in V3	PARTIALLY	YES
7. Removes potential increased security cost pass through to Shippers due to UNC requirements (above)	PARTIALLY	YES

Item 1.- Removal of 12 month securitisation requirement for NTS Exit Capacity charges. – to remove iDNs from the requirements of V3.3.4 (for the avoidance of doubt Shipper Users will be subject to this clause for any capacity they have registered at an NTS Exit Point (not NTS/LDZ Offtakes).

The inclusion of this UNC requirement arose through the implementation of UNC Modification Proposal 0195AV "Introduction of Enduring NTS Exit Capacity Arrangements". Aside from the possible parallels with NTS Entry Capacity requirements, no justification for its inclusion was in this (0195AV) Modification Proposal. All Users were to be treated the same (except National Grid Distribution) for this specific clause. A series of options, including the option covered by this Proposal, were presented to the Transmission workstream on 3rd December 2009 to deal with this specific anomaly.

The effect of this is to require DNO Users to provide, (with effect from 1 October 2012), credit cover equivalent to the cost of twelve months NTS Exit (Flat) Capacity. Currently Users' Value at Risk is defined in Section V, paragraph 3.2.1 (d) (i) and (ii). In this paragraph Value at Risk is defined as the amount invoiced to the User remaining unpaid, plus the average daily charge invoiced to the User in the previous calendar month multiplied by 20. Energy Balancing charges are excluded. Therefore, the Value at Risk for a DNO User in respect of NTS Exit Capacity Charges from October 2012 should be equivalent to the cost of circa 51 days NTS Exit (Flat) Capacity charges.

The move from providing credit cover for 51 days to credit cover for 51 days + 12 months will represent a significant increase in costs for DNO Users. WWU anticipate that it will need to securitise approximately £45M of NTS Exit Capacity Charges with National Grid NTS in October 2012 should this Modification Proposal not be implemented. The justification for this is not clear as Exit Reform does not involve any great change in the circumstances under which Exit Capacity is sold by the NTS. During RG0252 discussions and during development of Modification Proposal 0261 'Annual NTS Exit (Flat) Capacity Credit Arrangements' it was confirmed by NTS that iDNs presented a low credit risk.

Similarly, in 2009 Transmission Workstreams, NTS Exit Capacity User Commitment Strawman clearly indicated that DNOs should be excluded from the scope of such proposals.

The credit cover required for Entry Capacity is already 12 months but this is understandable in view of the greater uncertainly associated with the Entry

Capacity auction regime and the need to discourage speculative bidding. However, no such considerations apply to the Exit Capacity regime, and therefore there is no need to increase the 51 days credit cover for the iDNs.

Should this 12 month securitisation clause remain in place iDNs will need to raise a UNC Modification Proposal to cover an equivalent 12 months LDZ Exit Capacity NTS (ECN) charges, the costs of which will be borne by Users and potentially consumers.

Item 2 - Removal of circa 51 days securitisation requirement for all applicable charge types.

Transporters are heavily regulated through Licence conditions to ensure their financial viability. Securitising simply to be consistent with the requirements of (Shipper) Users is neither necessary nor is it an efficient utilisation of Transporters funds and/or credit lines.

Item 3 - Removal of requirement for IDNs to securitise against DN Pension charges

Securitisation between some Transporters in respect of Transportation charges is inconsistent and therefore this requirement should be similarly removed.

Item 4 - Removal of unworkable DN Termination facility in UNC V4

The retention of DNO User in UNC section V automatically leads to DNO Users being subject to Termination criteria and procedures. These procedures are unworkable and do not (legitimately) take account of anything other than Shipper termination. It is inappropriate and misleading therefore to have the UNC reference DNO's in this regard.

Item 5 - Removes unintended consequences of Mods 0116, 0127, 0195AV and any future DNO charges

The implementation of Proposal 0195AV "Introduction of Enduring NTS Exit Capacity Arrangements" built largely on aspects of Modification Proposal 116. Sandwiched in between these proposals was Modification Proposal 0127 "Introduction of a DN Pensions Deficit Charge" which referenced DNO Users for invoicing and credit purposes. The subsequent implementation of 195AV carried the unintended consequence whereby NTS Exit charges were automatically deemed a DNO User charge requiring securitisation with National Grid NTS. This was never intended and should therefore be removed. Similarly, should any future DNO charge be introduced, it should not automatically be subject to the general User rules, unless specifically warranted.

Item 6. Removes differential treatment of DNs by NTS in V3

The iDNs (WWU, SGN and NGN) are presently required to securitise with National Grid Transmission and each GDN bears these security costs. National Grid Distribution are not required to securitise (National Grid is viewed as single entity for these purposes, albeit they have different licences). National Grid distribution does not bear any such costs.

Item 7 - Removes potential increased security cost pass through to Shippers due to UNC requirements

Any securitisation required of DNOs by National Grid NTS in respect of 51 days credit or 12 months credit will be necessarily passed through to Shippers and potentially Consumers. Current UNC wording does not allow DNs to request Shippers to secure an extra 12 months charges. Should this proposal (or proposal 13) not be implemented iDNs will raise a Modification Proposal to mirror these security arrangements and necessarily back off its risk. In view of WWU's RAV (in comparison to National Grid NTS), the maximum unsecured value for credit will be significantly lower and therefore lead to Shippers having to provide higher levels of costly security to iDNs, with no benefit being gained.

RG0252 discussions resulted in all members supporting the intent set out in Proposal 13, whereas elements of the Review Group supported the fuller intentions of Proposal 13a.

Suggested Text

V 3 and V4

V 3.1.2 In this paragraph 3 references to:

(a) Users ~~include~~ excludes DNO Users;

V 4.1.6 In this paragraph 4 references to:

(a) Users ~~include~~ excludes DNO Users;

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This Proposal is not classified as a User Pays Modification Proposal as it does not create or amend any User Pays Services.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

No User Pays charges applicable.

c) Proposed charge(s) for application of Users Pays charges to Shippers

No User Pays charges applicable to Shippers.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

This proposal will assist the economic operation of the DN pipeline systems for the iDNs by avoiding an increase in the cost of operating the systems for which there is no offsetting benefit. The cost will vary depending on the credit rating of the iDN seeking the cover and the amount of cover required.

EDF Energy agrees with the proposer that in theory implementation of this proposal will avoid the DNOs having to lodge credit to cover the next 12 months of NTS Exit capacity bookings. Were this to require the lodging of a Letter of Credit or deposit deed, this would come at a cost, which would be inefficient. However, EDF Energy has not been able to assess the materiality of this benefit as only Wales & West Utilities have identified the additional security that they would be required to lodge. EDF Energy would note that for Wales & West Utilities they have identified that without implementation of Proposal 0310 they will be required to securitize an additional £45m. From Ofgem's Impact Assessment into UNC proposals 0246, 0246A and 0246B a Letter of Credit costs in the region of 1-3% depending on the credit rating of the company. This therefore equates to an increase in costs of between £450,000 to £1.35m per annum, or 0.17% to 0.51% of Wales & West Utilities average allowed revenue. Based on these figures it would appear that failure to implement this proposal would not have a material impact on Wales & West Utilities revenues. For the other DNOs who have not provided indicative figures, EDF Energy note that if the majority of these bookings were to be covered by unsecured credit, then the cost and impact of not implementing this proposal would be even more marginal.

In addition EDF Energy note that this proposal goes further than 0310 and removes all of the credit requirements on DNOs covered by V3 and V4. None of the DNOs have indicated what the costs of the current regime are, and so the benefit of implementation of this proposal over 0310. It would appear reasonable to assume from Wales & West Utilities figures, that currently the DNOs have sufficient unsecured credit to cover their existing requirements in which case there is no benefit from implementing this proposal in addition to that derived from 0310.

Scotia Gas Networks considers the implementation of Modification Proposal 0311 would better facilitate this relevant objective as it would assist the independent DNOs by avoiding an increase in the operational cost of the pipeline system to which there would be no offsetting benefit.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of

(i) the combined pipe-line system, and/ or

(ii) the pipe-line system of one or more other relevant gas transporters;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii)between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

The Proposer believes that implementation would further the GT Licence 'Code relevant objective' of the securing effective competition between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. Removing this UNC requirement would re-instate a level playing field whereby all Distribution Networks were treated the same by National Grid NTS.

Scotia Gas Networks considers the implementation of this Proposal would create a level playing field between DN Operators in relation to the credit arrangements required to be in place for NTS Exit Capacity arrangements and general credit arrangements, thus securing effective competition between DNOs.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Removing this requirement would ensure all Users had similar credit arrangements with all Distribution Networks. Retaining the existing requirement would create a two tier credit arrangement with users requiring proportionately higher levels of securitisation with every Distribution Network except National Grid Distribution.

EDF Energy disagrees with the proposer that implementing this proposal would ensure that the same credit arrangements were applied to Shippers by iDNs and National Grid Distribution. Currently the UNC does not differentiate between credit requirements on iDNs compared to National Grid Distribution, with the same arrangements applying regardless of the DNO owner. EDF Energy therefore does not consider a two-tier credit regime currently exists, and so this proposal will have no impact on this relevant objective.

Scotia Gas Networks considers implementation of this Proposal would simplify the arrangements relating to credit for all Distribution Networks within the UNC and would also ensure Users had similar credit arrangements with all DNOs. The retention of the current process would create a two-tier credit arrangement between DNOs.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

There are no implications for operation of the System.

b) Development and capital cost and operating cost implications:

There are no cost implications.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No additional cost recovery period is proposed.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

Not applicable.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The contractual risk to National Grid NTS (from the non NG Distribution Networks) theoretically increases, however Transporters broader Licence obligations in terms of indebtedness and required investment grade requirement etc more than compensate for this.

EDF Energy notes that the proposer appears to believe that this proposal will have the same level of contractual risk to Transporters as proposal 0310. EDF Energy considers this proposal increases the risk to National Grid as it increases the capacity that is not subject to credit terms under the UNC. Therefore, EDF Energy considers this proposal has a worse impact on contract risk than 0310.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No changes have been identified.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No implications have been identified.

Development and capital cost and operating cost implications

To be advised by Users.

Consequence for the level of contractual risk of Users

EDF Energy considers that this proposal will increase the level of contractual risk on Shippers in the event of network failure if National Grid chooses to recover any unsecured debt from Shippers rather than DNOs.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

The only theoretical (increased level of) risk rests with National Grid NTS with the proposal.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- ensures DNOs are not over securitised in respect of potential charges to National Grid NTS.
- removes differential treatment between NG Distribution and other DNO's in respect of credit arrangements with NG NTS.
- Removal of over securitsation will reduce costs for shippers (and consumers)
- Removes the need to raise a subsequent UNC proposal seeking to ensure

Shippers securitise 12 months worth of LDZ ECN Charges with some DNOs.

- Removes unintended consequences of Modification Proposal Proposal 0195AV
- Makes UNC Termination arrangements not applicable to Transporters.

Disadvantages

- Decreases securitisation for National Grid NTS in respect of NTS capacity charges booked by some GDNs

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Organisation	Response
BGT	Supports
EDF Energy	Not in Support
E.ON UK	Not in Support
First:utility	Supports
National Grid Distribution	Comments Offered
National Grid NTS	Not in Support
Northern Gas Networks	Supports
RWE Npower	Comments Offered
Scotia Gas Networks	Supports
ScottishPower	Not in Support
SSE	Supports
Wales & West Utilities	Supports

In summary of the 12 representations received, 6 support implementation, 2 offered comments and 4 opposed implementation of the Proposal. Of those expressing a preference between Modification Proposals 0310 and 0311, 1 expressed a preference for 0310 and 4 expressed a preference for 0311.

EDF Energy considers this proposal is similar (and arguably an alternate to 0310), noting that it goes further than 0310 in that it removes DNOs as Users from section V3 and V4. This would mean that DNOs would not have to lodge any credit to cover the NTS Exit capacity bookings that they had utilised or the DNO Pension charges. EDF Energy agrees with the proposers of both modifications that it is not appropriate to require GDNs to secure their NTS Exit capacity bookings 12 months in advance. However, EDF Energy does not consider that it is appropriate to remove the GDNs from all the credit requirements in V3 and V4.

EDF Energy note that although the risk of failure may be small, they do not consider sufficient arguments have been made as to why GDNs should be removed from all sections of V3 and V4. EDF Energy believes that it is appropriate that all Users should have sufficient credit in place to cover their NTS Exit capacity that they have utilised, which is achieved through the VaR calculations. The use of an unsecured credit limit for this is appropriate and ensures that the credit requirements placed on all Users reflects the risk posed by these Users. EDF Energy therefore considers that there are no benefits from implementing this change. Noting that this differentiation between Proposals 0310 and 0311 is important, as in their view in the event of failure and another Transporter being appointed to operate the network, the future NTS Exit bookings are likely to be honoured. However, EDF Energy considers that historical capacity utilisation will not be honoured, exposing Shippers to this cost. It is therefore appropriate that the current arrangements are maintained.

E.ON UK considers the current credit securitisation requirements outlined in V3 and V4 should remain in place so that any outstanding invoices are appropriately covered.

First Utility agree that it is appropriate to remove the requirement for DNOs to provide credit cover equivalent to the cost of twelve months Exit (Flat) Capacity which would impose a disproportionate cost burden upon them.

In National Grid NTS view, the Energy Act Administration Arrangements would not provide any assurance with regards to any outstanding invoices (for exit capacity already utilised and pension charges) relating to the period that the original DNO experienced difficulties. These outstanding invoices could become classed as a bad debt to National Grid NTS and may ultimately be passed onto Shippers and their customers. National Grid NTS appreciate that pass through of such bad debt is subject to meeting both the criteria as set out in section 4 of the Best Practice Guidelines for gas and electricity network operator credit cover (2005) and gaining Ofgem approval.

National Grid NTS considers that the current credit securitisation requirements should remain in place for the circa 51 days of NTS Exit Capacity charges and pension charges, to maintain the ethos of ‘responsible credit’ and to help mitigate the risk of the outstanding invoiced amounts being passed onto the Shipper Community and ultimately end consumers. National Grid NTS also believe that the current credit arrangements being applied are consistent with the best practice guidelines.

Wales & West Utilities state that Proposal 0311 will lead to the removal of the unworkable DN Termination facility in UNC section V4. Although little information is provided in the Proposal to support this statement, National Grid NTS remains of the view that a DNO, as a User, can be terminated from the UNC, in the same way that a Shipper User can be, if they breach the credit arrangements as specified in Section V. Although National Grid NTS recognises that a "DNO of last resort" is likely to take over the terminated DNO's activities this may still occur as a result of the original DNO being terminated.

National Grid NTS advises, the Proposer believes the subsequent implementation of 0195AV carried forward the unintended consequences of implementing Proposal 0127 (after 0116 and before 0195AV), which introduced DNOs as a User. This chain of events has resulted in all Users, including DNO Users, being required to pay NTS Exit charges and also required them to provide the necessary security to National Grid NTS. The Proposer believes these consequences were never intended and therefore should be removed. National Grid NTS disagrees with this statement; as they consider the exit capacity credit regime introduced by 0195AV was intended to mirror the existing credit arrangements for entry capacity, which applies to all parties in an equitable manner.

National Grid NTS advises, the Proposer of 0311states that they believe their maximum unsecured value for credit will be significantly lower than required and therefore lead to Shippers having to provide higher levels of security to DNOs. The analysis carried out by National Grid NTS suggests that the requirement to provide credit cover for the circa 51 days of NTS Exit Capacity charges and pension charges (excluding the 12 months exit capacity charges) would be met by DNOs via Unsecured Credit (assuming they maintain the credit rating as per their licence) and therefore they do not consider DNOs will incur additional costs as a result of the existing arrangements.

Both Northern Gas Networks and Scotia Gas Networks consider this Proposal if implemented would additionally introduce amendments to the UNC to remove DNOs as Users in relation to the circa 51 days securitisation requirement for all applicable charge types, securitisation against DN Pension charges, the termination facility as detailed in UNC Section V4, the application of securitisation for any future DNO charges, the differential treatment of Distribution Networks by National Grid Transmission and the removal of potential increased security cost pass through to Shippers.

RWE npower would like further clarification on item 3 where it states "Securitisation between some Transporters in respect of Transportation charges is inconsistent and therefore the requirement should be similarly removed". RWE npower would note that just because something is inconsistent it should not be removed but made consistent if required. RWE npower wish to understand further what these inconsistencies are and whether there are ways in which standardisation could occur.

ScottishPower is concerned that this Proposal seeks to extend the removal of DNOs from all UNC credit requirements. ScottishPower is not convinced by the justification provided for that extension and believes that this Proposal goes too far in unnecessarily exposing Users.

Wales & West Utilities consider the inclusion of the current UNC requirements arose through the implementation of UNC Modification Proposal 0195AV "Introduction of Enduring NTS Exit Capacity Arrangements". Aside from any weak parallels with NTS Entry Capacity requirements, there was no justification for its inclusion within the Modification Proposal (0195AV).

The effect of this UNC clause requires iDNO Users to provide, (with effect from 1 October 2012), additional credit cover equivalent to the cost of twelve months NTS Exit (Flat) Capacity charges. Currently Users' Value at Risk is defined in UNC TPD Section V, paragraph 3.2.1 (d) (i) and (ii). In this paragraph, Value at Risk is defined as the amount invoiced to the User remaining unpaid, plus the average daily charge invoiced to the User in the previous calendar month multiplied by 20. Therefore, the Value at Risk for a DNO User in respect of NTS Exit Capacity Charges from October 2012 should be equivalent to the cost of circa 51 days NTS Exit (Flat) Capacity charges.

Wales & West Utilities advised that the move from providing credit cover for 51 days to credit cover for 51 days + 12 months represents a significant increase in costs for iDNO Users. Wales & West Utilities anticipates that it will need to securitise approximately £45M of NTS Exit Capacity Charges (£30M additional and circa £15M unsecured) with National Grid NTS in October 2012 should this Modification Proposals not be implemented. The justification for this securitisation is not clear as Exit Reform does not involve any great change in the circumstances under which Exit Capacity is sold by the NTS.

Wales & West Utilities considers Proposal 0311 offers no increased costs for iDNOs through increased security arrangements. Removal of incorrect Termination reference for iDNOs. Future proofing of securitisation for any
(i) new or variance to existing charging levelsand/or methodology payable by iDNOs to NG NTS.
(ii) changes to unsecured credit arrangements

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

15 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

It is suggested that this Proposal be implemented on 1st October 2010 to coincide with the implementation of the other credit proposals being considered in this timeframe. Should this date not be achievable, then implementation could take place immediately following an Authority direction

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 19 August 2010, the eleven Panel members present determined by PANEL MAJORITY to recommend implementation of the Proposal, with nine Members voting in favour.

The Panel Chair noted that twelve responses had been received, of which six supported implementation, two offered comments and four opposed implementation of the Proposal.

The Panel Chair summarised that Proposal 0311 seeks to exclude the DNOs from the requirements of V 3.1.2 and V 4.1.6. This would remove the obligation to provide credit in respect of exit capacity bookings for the following twelve months, but would also remove other obligations to provide credit in respect of transmission charges faced by the DNs. This would therefore reduce costs for DNOs and hence in due course for Shippers, Suppliers and Customers. Implementation would, by avoiding unnecessary costs, facilitate the achievement of effective competition. However, implementation would introduce different treatment of Shippers and DNs which may be regarded as discriminatory and hence not facilitate delivery of the Transporter Licence obligations.

The EDF Energy Panel member suggested implementation might not meet the relevant objectives since it creates a two tier credit arrangement and it was unclear why it is necessarily inappropriate for DNs to securitise the risk they impose on Transmission. This may be a low risk given the nature of the business, but that should also mean the cost of security would be low.

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters