TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0447

"Provision Enforcement of a Minimum Level of Energy Balancing Security"
Version 1.0

Date: 18 December 2000

Proposed Implementation Date: 1 February 2001

Urgency: Not urgent

Justification

The recent failure of Independent Energy has exposed the shipping community to some £1.5M of pre-receivership energy balancing debt. This has focused attention on the need to tighten-up current credit management procedures, which have (other than Modification 103 implemented on 1 October 1997) remained largely unchanged since the introduction of the Network Code in 1996. Of particular concern is the potential for Users to rapidly increase indebtedness through trading at the National Balancing Point (NBP) that results in large imbalance positions. Members of the Energy Balancing Credit Committee (EBCC) have concluded that enforcement of minimum levels of security that better reflect the current activities of particular Users are required.

Under the Network Code Supplement, Users are required to elect a Secured Credit Limit in relation to their energy balancing position. For those Users that have not been assigned an Investment Grade rating by a designated credit rating agency, a suitable form of security must be provided to support that limit, in compliance with the Energy Balancing Credit Rules. A "Cash Call Limit" is allocated for each User that is equivalent to 85% of the Secured Credit Limit. Outstanding Relevant Balancing Indebtedness, which represents the cumulative debt position, is then measured against this limit.

On behalf of all Users, Transco operates procedures to track each User's ongoing energy debt position. Upon identification of an unsecured excess, appropriate action is taken in order to protect all Users from this exposure. This action is encapsulated within the Cash Call Notice process.

This process is carried out in accordance with the Network Code and the Energy Balancing Credit Rules and the latter are subject to the approval of the Energy Balancing Credit Committee. This committee is established by the Network Code as a committee of Users under the non-voting chairmanship of Transco. Ofgem also attends the committee meetings in a non-voting capacity.

The Energy Balancing Credit Committee has identified an issue arising from the present Energy Balancing Credit Rules. If a User is regularly required to pay Cash Call Notices, this is an indication that its Secured Credit Limit is insufficient for its energy balancing behaviour. In such an event, Transco does not have the right to insist on a minimum Secured Credit Limit nor a minimum supporting security.

There is therefore a need for a Network Code Modification which allows Transco to implement a more appropriate Secured Credit Limit and obtain relevant security in support of that limit.

Nature of Proposal

It is proposed that if a User is required to pay **two** Cash Call Notices (whether the Notice is revised, re-issued, or first issue) within any rolling **28** calendar day period, Transco will issue a "Request to Provide Security Notice" (which will form a new appendix to the Energy Balancing Credit Rules), as soon as reasonably practicable. This Notice will request the User to provide security in accordance with the Energy Balancing Credit Rules to fully support a Secured Credit Limit. This limit shall be equivalent to **120%** of the peak indebtedness level during that 28 calendar day period within **eight** Business Days from the date of the Notice. Additionally, the "Request to Provide Security" Notice will specify that the additional security must not expire within **90** days of the date of the Notice.

Alternatively, the User may appeal against the "Request to Provide Security" Notice within five Business Days from the date of the Notice. In such an instance the User will be required to provide information and evidence demonstrating why the required Secured Credit Limit is not suitable for their energy balancing behaviour. Under 1.2.3 of the Network Code Supplement, Transco may consult the Energy Balancing Credit Committee in relation to any aspect of its functions under the Supplement and therefore may exercise this right when considering any such appeal. Any consultation will be carried out in accordance with 1.2.5 of the Supplement in relation to the protection of the User's identity.

If the User fails to comply with the "Request to Provide Security" Notice, a "Failure to Provide Security" Notice (which will form a new appendix to the Energy Balancing Credit Rules), will be issued. This will notify the User that Transco shall be entitled to give a Termination Notice to the User if the User does not provide an increased level of security within a further **fifteen** Business Days from the date of that Notice.

Where Transco has issued a "Failure to Provide Security" Notice and until the required total value of security is provided in accordance with the Energy Balancing Credit Rules, Transco will not pay and (irrespective of the Invoice Due Date) shall be entitled to withhold payment pursuant to any Energy Balancing Invoice in respect of any amounts payable to the User in respect of Energy Balancing Charges.

Furthermore, in the event that under contingency arrangements the Flexibility Mechanism is in use, the User shall not be entitled, nor will Transco accept, any flexibility bid.

The figures shown in bold print will be contained within the Notices that will form appendices to the Energy Balancing Credit Rules. This reflects the current process for Notices already governed by the Energy Balancing Credit Rules.

Purpose of Proposal

The purpose of this proposal is that Users as a whole will have a reduced credit exposure to other Users through an increased level of protection. A mechanism will be introduced to ensure that the level of protection is reflective of individual User's energy balancing behaviour.

Consequence of not making this change

Users as a whole will continue to be exposed to the unsecured Outstanding Relevant Balancing Indebtedness of those Users that do not elect an appropriate Secured Credit Limit nor provide security in support of that limit.

Area of Network Code concerned

Network Code Supplement 2.2, 2.3. 2.6 and 2.7

Proposer's Representative: Jane Butterfield

Proposer: Peter Bolitho

Signature:

Company: Powergen UKplc

Also supported by EBCC representatives from the following organisations (who were in a position to lend their support as of noon 18 December 2000); Innogy, Aquila, Accord and British Gas Trading.