TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0685

"Amendments to Provisions for the Calculation of Relevant Balancing Indebtedness of a Trading System Operator"

Version 2.0

Date: 09/03/2004

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Transco currently has an obligation to monitor each User's Relevant Balancing Charges and the amount of the User's Outstanding Relevant Balancing Indebtedness, as soon as is reasonably practicable, after the day on which the Users initial Entry Allocation Statements are available.

Following the failure of a User in September 2000, Transco in conjunction with the Energy Balancing Credit Committee (EBCC) initiated a review of the provisions within the Network Code Supplement. As a result of this review it was identified that when assessing a Users total exposure on any one day, no account was taken of the previous 9 days allocations. This was due to two factors:

The provisions of E2.1.2 specify that Users should submit such allocations to Transco not later than the 7th Business Day after the Gas Flow Day.

Data is transferred from AT Link to Transco's exposure monitoring system overnight following the close of day, adding a further 2 days delay.

To close this gap Modification 0474 'Revision of Indebtedness Cash Call Trigger' introduced the concept of an accrual for the unmeasured period 'Anticipated Balancing Indebtedness' (ABI). ABI is calculated based upon a formula that takes account of the previous 10 days activity adjusted to account for standard deviation.

Further discussions at the EBCC resulted in recognition from EBCC members, that in not having direct control of its trading positions, the Trading System Operator (TSO) is in a unique situation for which the Energy Balancing Credit Rules do not make provision. This resulted in the EBCC requesting Transco to raise Modification Proposal 0609 'Changes to Energy Balancing Credit Arrangements for the Trading System Operator' with the intention of addressing a situation where through the occurrence of events beyond its control the TSO could be required to put in place security of theoretically unlimited value at short notice. Implementation of Modification 0609 on the 1st March 2004 introduces an additional trigger whereby once the TSO's Outstanding Relevant Balancing Indebtedness exceeds 60% (rather than the Cash Call trigger of 85% for all other Users) Transco will have an obligation to convene an emergency Operational Meeting of the Energy Balancing Credit Committee

(EBCC) to review the TSO's exposure. The Proposal further seeks to extend the provisions within both the Network Code supplement and EBCR to allow appropriate action to be taken:

Using the ABI accrual methodology to calculate the TSO's indebtedness may be inappropriate, on the basis that it is difficult to demonstrate a trend, as one day may not be indicative of another, as seen in the case of other Users. The introduction of Modification Proposal 0609 is likely to cause a significant increase in the number of emergency Operational Meetings of the EBCC as there is no provision for the TSO to appeal its exposure at that point, therefore there is a possibility that meetings may be called unnecessarily, prior to any Cash Call being issued.

Nature of Proposal

Due to the unique position of the Trading System Operator (TSO), actual data is available in respect of its trading activities at the close of the day and is available to Transco's Credit Risk Management department the following day. It is proposed therefore that the Network Code Supplement should be amended to take account of this data and remove the necessity to calculate the TSO's Outstanding Relevant Balancing Indebtedness on the basis of the Anticipated Balancing Indebtedness (an accrual formula that takes account of the previous 10 days activity adjusted to account for standard deviation) and replace this with actual data for the whole of the Imbalance Period.

Purpose of Proposal

The implementation of this proposal would remove the inequity which may leave the community exposed in the event of failure of the TSO, as currently when the TSO's Outstanding Relevant Balancing Indebtedness is forecast below the actual position, the TSO may not advise Transco. Further, it would mitigate the possibility of unnecessarily convening an emergency operational meeting of the EBCC. Transco believes that avoiding unnecessary administrative procedures and adding transparency to the process better facilitates its GT Relevant Objective of the securing of effective competition between relevant shippers and between relevant suppliers.

Consequence of not making this change

The effect of not implementing this proposal leaves a potential increased exposure to the community. This would apply where the inclusion of the ABI results in the TSO's exposure being reported below the actual level and in the event of failure this could result in insufficient security being held. The introduction of Modification Proposal 0609 is likely to cause a significant increase of the number of emergency Operational Meetings of the EBCC called as there is no provision for the TSO to appeal its exposure at the point where no Cash Call has been issued, which may lead to meetings being called unnecessarily.

Area of Network Code Concerned

Section X (Supplement)

Proposer's Representative

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Proposer

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Signature

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