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Dear Bob

UNC Modification Proposals 0298-0311

WWU is supportive of all 14 UNC Modification Proposals (0298-0311), which were raised following the recommendations of Review Group 0252 in 2010. Our consultation response focuses primarily on two proposals (0310 and 0311), which whilst not strict alternatives, need considering in this regard as only one can be implemented.

The table below specifically references the relevant objectives which any UNC proposal must satisfy to be considered for implementation. All 14 of the proposals satisfy a minimum of one of these (✓) conditions and as such are recommended for implementation. A table of the proposals together with confirmation of WWU's view is at the end of this consultation response.

Standard Special Condition A11. Network Code and Uniform Network Code

Condition	
1a- efficient and economic operation of the pipeline system to which licence relates	✓
1b- co-ordinated, efficient and economic operation of (i) combined pipeline system and/or (ii) pipeline system of one or more other relevant gas transporters	
1c- consistent with (a) and (b) above, efficient discharge of licensees obligations	
1d- securing of effective competition between (i) Relevant shippers (ii) Relevant suppliers and/or	✓ ✓

24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

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(iii) DN operators	
1e-provision of reasonable economic incentive for relevant suppliers to secure that domestic customer supply standards are satisfied	
1f- promotion of efficiency in the implementation and administration of the uniform network code	✓

Modification Proposals 0298 - 0309

WWU support the implementation of these twelve UNC Modification proposals. Each proposal clearly sets out the relevant objectives which would be advanced through each individual Modifications implementation, the rationale for each change having being exhaustively assessed and ratified through Review Group 0252 discussions in 2009/10. It is worth noting that these proposals were developed so as not to be contingent on each other and can therefore be assessed independently.

An implementation date has been proposed for each proposal, and whilst the majority of these are the same, there is no compelling need for all proposals to be implemented at the same time (albeit it may make any administration easier).

Modification Proposals 0310 – 0311

WWU recommend the implementation of both proposals, however as they are alternatives in all but name, only one can be directed for implementation. WWU believe proposal 0311 better facilitates the relevant objectives for the reasons set out below.

Removal of 12 month securitisation requirement for NTS Exit Capacity charges.

The inclusion of this current UNC requirement 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.

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. WWU anticipate 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 neither of these Modification Proposals 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. During RG0252 discussions and during development of Modification Proposal 0261 'Annual NTS Exit (Flat) Capacity Credit Arrangements' it was confirmed by NG NTS that iDNs presented a different and lower credit risk than Shippers. Similarly, in 2009 Transmission Workstreams, NTS Exit Capacity User Commitment Strawman clearly indicated that DNOs should be excluded from the scope of such proposals. This is primarily due to the fact that DNOs make NTS Exit Capacity bookings in order to secure sufficient capacity to operate a safe, economic and efficient networks for the 22 million customers connected to them. These customers, unlike a 'commercial' NTS direct connect, offer a consistent and long-term demand on the networks, and subsequently the NTS, and therefore such a security commitment is unnecessary and inappropriate. The credit cover required for Entry Capacity is already 12 months but this is understandable in view of the greater uncertainty 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 requirement to increase the 51 days credit cover for the iDNs. It is important to consider why Shipper Users and iDNO Users should be treated separately in this regard. This 'due' discrimination reflects the regulated businesses iDNOs operate, with its consequential regulated income.

Removal of circa 51 days & DN Pension Charge 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. WWU are mindful of a view that Modification Proposal 0311 places NG NTS at an increased risk, should an iDNO default on invoices due from it. Notwithstanding the acute implausibility of such an event, coupled with the broader financing requirements iDNOs are

subject to through their GT Licence, any iDNO default would be very quickly realised and addressed due to the short (12 day) payment terms required by the UNC. Unlike Shippers, iDNOs are not subject to unpredictable energy balancing charges, further reducing the risk presented by more predictable Transportation charges.

Removal of unworkable DN Termination facility in UNC V4

The UNC is a joint document required under Standard Special Condition A11 of the Gas Transporter licence and is in place to ensure that common arrangements are in place for access to the gas networks. As the UNC is a joint Transporter document, that Shipper Users become signatories to, Transporters cannot “terminate” one another using the existing UNC TPD V4 clauses. These clauses were drafted specifically for application by any Transporters against any Shipper User. Should it be the view that iDNOs (or more correctly all Large Transporters) should be subject to a UNC Termination procedure, then a licence modification would be required to allow for this within Standard Special Condition A11 of the Gas Transporters licence.

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” was built largely on aspects of Modification Proposal 0116. 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 is viewed as unjustified and unnecessary. Similarly, should any future DNO charge be introduced, it should not automatically be subject to the general User rules, unless specifically warranted.

Removes differential treatment of DN by NTS in V3

The iDNs 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. This concept is discriminatory and should be removed.

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

Any costs resulting from securitisation required of iDNOs 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 neither Modification Proposal 0310 nor 0311 be implemented iDNOs will need to raise a Modification Proposal to mirror these security arrangements and necessarily back off its risk with Shippers. 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 iDNOs.

In summary the 3 options available in respect of 0310 and 0311 are set out below:

Neither 0310 or 0311 implemented	Increased costs for iDNOs and Shippers (& consumers) through increased security arrangements
0310 implemented	No increased costs for iDNOs through increased security arrangements based on current charging levels and methodology
0311 implemented	<p>No increased costs for iDNOs through increased security arrangements. Removal of incorrect Termination reference for iDNOs. Future proofing of securitisation for any</p> <ul style="list-style-type: none"> (i) new or variance to existing charging levels and/or methodology payable by iDNOs to NG NTS. (ii) changes to unsecured credit arrangements

Please do not hesitate to contact me should you have any questions relating to this response.

Yours sincerely

Simon Trivella

<u>Mod reference</u>	<u>Modification title</u>	<u>Proposer</u>	<u>WWU recommendation</u>	<u>Comments</u>
0298	Amend and remove UNC TPD Section V3 text inconsistencies, errors and bi-lateral insurance clause	WWU	Recommended for Implementation	
0299	Alignment of portfolio sanctions across UNC TPD Sections V and S	WWU	Recommended for Implementation	
0300	Introduction of Fitch as an allowable Credit Rating Agency for the purposes of Code Credit Arrangements	NGN	Recommended for Implementation	
0301	Removal of the use of Specially Commissioned Ratings for the purposes of obtaining an Unsecured Code Credit Limit	NGN	Recommended for Implementation	
0302	Definition of Regulatory Asset Value (RAV) when calculating Maximum Unsecured Credit	WWU	Recommended for Implementation	
0303	Obligation for Users to maintain a Code Credit Limit and at a reasonable level	WWU	Recommended for Implementation	

0304	Introduction of a rating table for independent credit rating agencies for use with Independent Assessments	NGN	Recommended for Implementation	
0305	Unsecured Credit Limit allocated through payment history	NG NTS	Recommended for Implementation	
0306	Administration of Shipper Credit Security Contact Details	SGN	Recommended for Implementation	
0307	Alignment of Defaulting User Threshold with Insolvency Act	SGN	Recommended for Implementation	
0308	Appropriate use of the terms Surety and Security in UNC TPD Section V	WWU	Recommended for Implementation	
0309	Timeframes for establishing and extending Guarantees and Letters of Credit	WWU	Recommended for Implementation	
0310	Removal of DNO Users from UNC TPD V3.3.4	SGN	Recommended for Implementation	0311 viewed as better satisfying relevant objectives than 0310
0311	Removal of DNOs as Users from UNC TPD V3 and V4	WWU	Recommended for Implementation	0311 viewed as better satisfying relevant objectives than 0310