

**Draft Modification Report**  
**Amend the BNFA Neutrality Interest Rate**  
**Modification Reference Number 0065**

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

**1. The Modification Proposal**

The Proposal was as follows:

"This Proposal seeks to amend the current definition for 'Neutrality Interest Rate' as provided under UNC General Terms, Section C - Interpretation paragraph 1: Defined Terms which states that:

**"Neutrality Interest Rate"** means the percentage rate calculated as the base rate for the time being of Barclays Bank plc divided by 365.

National Grid NTS proposes that reference to 'Barclays Bank plc' base rate be amended to 'prevailing' rate.

The objective of the Balancing Neutrality Finance Adjustment (BNFA) is to ensure that National Grid NTS ( in respect of the Balancing Neutrality Account) neither gains nor loses through timing differences in cash flow, relating to receipts and payments which make up Balancing Neutrality and Balancing Neutrality apportionment.

UNC Section F 4.6, states that the BNFA for a day is the amount calculated as the Neutrality Interest Rate for the day multiplied by the closing cash balance for that day. The BNFA can be either a payment or receipt in respect of both Balancing and Reconciliation charges.

Following the Network Sales on the 1st May 2005, xoserve adopted the responsibility of managing and owning the Balancing Neutrality account. Interest charged/earned is debited/credited directly to/from this account. Interest charges/receipts are recovered/distributed to the relevant Users through the Balancing Neutrality mechanism.

Under current arrangements any interest on the Balancing Neutrality account is calculated based on the Balancing Neutrality account balance (ie the debit/credit). Therefore, in order for the Balancing Neutrality account to remain neutral, the interest rate applied to BNFA invoice item on the Balancing Invoice and the interest rate applied by the bank in respect of the Neutrality Account must be an equal rate. This is currently not the case as, under the current arrangements, National Grid NTS receives a lower rate of interest, than the current Barclays Bank plc base rate, for any interest applied to this account. This rate applies whether it has interest due to the account or due from the account.

The prevailing UNC states that the applicable rate for the Neutrality Interest Rate is Barclays Bank plc base rate. Therefore, when the Balancing Neutrality account is in credit, National Grid NTS is required to apply, to relevant Users, a greater interest payment, through the BNFA, than was actually received, from the bank, through the Balancing Neutrality account. Conversely, when the account is overdrawn, the interest rate charged is below that recovered from relevant Users.

National Grid NTS believes that the current method of applying the BNFA does not conform to the basic principles and intent of the Balancing Neutrality mechanism and may inappropriately apportion neutrality. National Grid NTS proposes that the Neutrality Interest Rate be amended such that the 'prevailing interest' rate is referred to instead of the 'Barclays Bank plc interest rate'. This would ensure that the applicable Neutrality Interest Rate would be equal to the interest rate applied by the relevant bank in respect of the Balancing Neutrality account."

**2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

The Proposer believed "that the implementation of an amendment to the defined term 'Neutrality Interest Rate' would ensure that the calculation of the BNFA would be consistent with the principles of Balancing Neutrality. Implementation of this proposed change would mitigate any risk that Balancing Neutrality costs were inappropriately apportioned across the relevant Users and therefore would better facilitate 'effective competition between relevant shippers and between relevant suppliers' in accordance with Paragraph 1.(d) of Standard Special Condition A11 (Network Code and Uniform Network Code) of the relevant GT Licences."

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

No such implications have been identified.

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

**a) implications for operation of the System:**

No such implications have been identified.

**b) development and capital cost and operating cost implications:**

No such implications have been identified.

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

No cost recovery requirement has been identified.

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

No such consequences have been identified.

**5. 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**

No such consequence has been identified.

**6. 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 such implications have been identified.

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

Any Balancing Neutrality costs associated with use of an inappropriate interest rate would be resolved by implementation of this Proposal.

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

It is possible that any Balancing Neutrality benefits or additional costs associated with implementation would be passed on to suppliers and/or consumers.

**9. 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 such consequences have been identified.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

The Proposer identified the following advantages of Implementation:

- "Ensure that the principles of Balancing Neutrality were upheld.
- Ensure that the Balancing Neutrality Account was balanced appropriately.
- Ensure that no costs were generated and borne by one individual outside the principles of Balancing Neutrality charging."

and the following disadvantage:

- "The relevant Users would probably receive lower payments when the account was in credit but conversely would receive lower charges when the account was overdrawn."

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

Representations are now invited.

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

No such requirements have been identified.

**13. 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**

No such requirements have been identified.

**14. Programme for works required as a consequence of implementing the Modification Proposal**

No programme for works has been identified.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

It is assumed that supporters of this Proposal would also support immediate implementation.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No such implications have been identified.

**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

19. Text

**UNIFORM NETWORK CODE - GENERAL TERMS**

**SECTION C - INTERPRETATION**

**1 DEFINED TERMS**

*Amend the definition of Neutrality Interest Rate to read as follows:*

**"Neutrality Interest Rate"** means the ~~percentage rate calculated as the base~~ interest rate applied from time to time to the bank account used by National Grid NTS for the purposes of receiving, and making, payment of the amounts specified in TPD Section F4.6.2. for the time being of Barelays Bank ple divided by 365.

*Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report*

Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**

Signature:

Date :