

CODE MODIFICATION PROPOSAL No. 0065
"Amend the BNFA Neutrality Interest Rate"
Version 1.0

Date: 08/11/2005

Proposed Implementation Date: 01/03/2006

Urgency: Non-Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

The Proposer's view is that this Proposal is sufficiently developed to go directly to consultation. This view is based on the consensus reached at the 16 September 2005 Energy Balancing Credit Committee and at 3 November 2005 Transmission Workstream where a draft proposal substantially of this form was discussed.

Nature and Purpose of Proposal (including consequence of non implementation)

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.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

National Grid NTS believes 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.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

For the purposes of better informing the consultation, of this Modification Proposal, National Grid NTS provides the following additional information:

Advantages of Implementation of the Proposal

- 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.

Disadvantages of Implementation of the Proposal

- 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.

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

National Grid NTS does not anticipate any such implications.

The implication for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

National Grid NTS does not anticipate any such implications.

b) development and capital cost and operating cost implications:

National Grid NTS does not anticipate any such implications.

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

National Grid NTS does not anticipate that any such cost recovery would be required.

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

National Grid NTS does not anticipate any such consequences.

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 is anticipated.

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 are anticipated.

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

No such implications are anticipated

Proposed Legal 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 plc divided by 365.~~ 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.

Proposed Implementation Timetable

Proposal submitted to November Panel	17/11/2005
DMR issued	08/12/2005
Close-out for Representations	03/01/2006
FMR issued in draft form	24/01/2006
Panel recommendation (February Panel)	16/02/2006
FMR issued to Ofgem	20/02/2006

Implementation upon Ofgem direction

It is proposed that, if approved, the revised rate would be effective from the 1st of the month following Ofgem's decision.

Code Concerned, sections and paragraphs

General Terms, Section C - Interpretation

1 Defined Terms

Proposer's Representative

Richard Hewitt (National Grid NTS)

Proposer

Richard Hewitt (National Grid NTS)

Signature

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