

**Draft Modification Report**  
**Introduction of the right for the Energy Balancing Credit Committee to instruct National Grid NTS as to appropriate Recovery Steps in respect of Energy Balancing debt**  
**Modification Reference Number 0103**

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**

Following Energy Balancing Credit Committee (EBCC) members' detailed review of the circumstances in which Termination Notices could be issued by the EBCC, members believe that the existing provisions set out within the Uniform Network Code (UNC) in respect of Enforcement and recovery steps for Energy Balancing debt are insufficient and have the potential to expose National Grid NTS to a conflict of interests where a Transportation Debt also exists. Members believe that the provisions of UNC section (X3.4.3) should be amended to provide for the EBCC to instruct National Grid NTS as to the most appropriate recovery action to be taken in order to clearly demonstrate that every effort is being made to curtail the community's exposure to avoidable financial loss in the event of User default.

Uniform Network Code currently sets out the following provisions in respect of enforcement and recovery steps:

UNC Section X 3.4.2 states "National Grid NTS agrees that it will, subject to the further provisions of this paragraph 3.4, take all reasonable steps to recover Energy Balancing Debt from a defaulting User, and to enforce and realise the Security provided by a defaulting User; provided that nothing in Section X shall require National Grid NTS to initiate or continue any Recovery Steps where to do so would in National Grids NTS's reasonable opinion expose National Grid NTS or any representative of National Grid NTS to any material risk or liability against which National Grid NTS is not adequately protected by virtue of paragraphs 3.4.4 and 3.4.6."

UNC Section X3.4.3 builds upon these provisions and states " National Grid NTS will consult with the Energy Balancing Credit Committee and keep such committee reasonably informed as to the Recovery Steps it takes in relation to Energy Balancing Debt, and circumstances in which National Grid NTS does not consider it commercially worthwhile to take or continue to take such Recovery Steps in relation to Transportation Debt; and will and shall be entitled to discontinue taking Recovery Steps (other than any steps necessary for such discontinuance) where the Energy Balancing Credit Committee has authorised it to do so."

Currently NTS is not required to take Recovery Steps where to do so would expose it to loss which cannot be recovered by X 3.4.4 and 3.4.6 and thus when acting in accordance with X3.4 it has a means of avoiding such exposure. However if NTS is instructed to act then it would have no such protection. This proposal will amend the UNC such that NTS will be protected from any losses sustained which it cannot recover by X3.4.4 and 3.4.6 when acting in accordance with such instructions.

In addition, this proposal will recognise that following instruction from the EBCC to take appropriate Recovery Steps in respect of Energy Balancing debt should not prevent or delay NTS in the recovery of NTS Transportation debt. This also aligns with the Termination principles in V4.3.

This proposal seeks to revise the provisions of Section X3.4.3 requiring National Grid NTS to convene a meeting of the EBCC as soon as is reasonably practicable following the issue of a Termination Notice to a defaulting User. Scope of such meeting should include but not be limited to the following:

- circumstances under which the User has defaulted
- details of the Users financial position (including details of Energy Balancing Debt, the value of any potential Monthly Adjustment Neutrality Amount in accordance with Section X 1.1 and of any securities held)
- details of the Users Shipper and Supply Licenses /arrangements
- recovery options available and the timescales associated with the implementation of such actions.
- details of the Users portfolio
- provide decision and instruction to National Grid NTS as to how to proceed.

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

Following review by the EBCC of Section X of the Uniform Network Code and the EBCR, EBCC believes that the measures identified within this Modification Proposal further the GT Licence relevant objective of facilitating the efficient and economic operation by the licensee of its pipe-line system by ensuring that robust procedures and best practice measures are in place to minimise the impact on the industry of User failure.

Additionally, EBCC believe that making revision to the rules governing the management of Energy Balancing Credit Management, the level of risk faced by Users could be reduced. The revisions proposed demonstrate continued development of the objectives of the EBCR, namely to “develop and maintain a Framework for limiting the risk of financial loss to the shipper community resulting from the operation of the Energy Balancing regime”, therefore implementation of this Proposal would be consistent with the relevant objective of the promotion of efficiency in the implementation and administration of the Network Code and/or the Uniform Network Code.

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

The implementation of this proposal should not have any effect on security of supply, operation of the Total System, or industry fragmentation.

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

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

No implications for operation of the system have been identified.

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

No development and capital cost and operating cost 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 mechanism is proposed.

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

No such consequences on price regulation 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 consequences have 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 systems implications have been identified.

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

Reduces the community's exposure to avoidable financial loss in the event of User default.

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

No such implications have been identified.

**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**

**Advantages**

- Reduces the community's exposure to avoidable financial loss in the event of User default.

**Disadvantages**

- none identified

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

*Written Representations are now sought in respect of this Draft Report*

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**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**

Implementation is not 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.

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

No programme for works would be required as a consequence of implementing the Modification Proposal.

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

Implementation can be immediate on receipt of direction from Ofgem.

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

No implications of implementing this Modification Proposal upon existing Code Standards of Service 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 - TRANSPORTATION PRINCIPAL DOCUMENT**

**SECTION X - ENERGY BALANCING CREDIT MANAGEMENT**

*Amend paragraph 3.4.2 to read as follows:*

~~“3.4.2 National Grid NTS agrees that it will, subject to the further provisions of this paragraph 3.4, take all reasonable steps~~ The Energy Balancing Credit Committee shall direct National Grid Gas as to what Recovery Steps (if any) (the “**Directed Recovery Steps**”) to take to recover Energy Balancing Debt from a defaulting User, and to enforce and realise the Security provided by a defaulting User; ~~provided that nothing in this Section X shall require National Grid NTS to initiate or continue any Recovery Steps where to do so would in National Grid NTS's reasonable opinion expose National Grid NTS or any representative of National Grid NTS to any material risk or~~ National Grid NTS agrees that it will, subject to the further provisions of this paragraph 3.4, take the Directed Recovery Steps. To the extent that taking such Directed Recovery Steps exposes National Grid NTS or any representative of National Grid NTS to any liability against which National Grid NTS is not adequately protected by virtue of paragraphs 3.4.4 and 3.4.6, any such liability shall (notwithstanding any other provision of the Code) be deemed to be additional Monthly Neutrality Adjustment Amounts in the month in which National Grid NTS makes payment in respect thereof.”

*Amend paragraph 3.4.3 to read as follows:*

~~“3.4.3 National Grid NTS will consult with~~ keep the Energy Balancing Credit Committee ~~and keep such committee~~ reasonably informed as to the Directed Recovery Steps it takes in relation to Energy Balancing Debt; ~~and circumstances in which National Grid NTS does not consider it commercially worthwhile to take or continue to take such Recovery Steps in relation to Transportation Debt;~~ and will and shall be entitled to discontinue taking Directed Recovery Steps (other than any steps necessary for such discontinuance) where the Energy Balancing Credit Committee has authorised it to do so.”

***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 :