

**CODE REVIEW PROPOSAL No 0221**  
**Review of Entry Capacity and the Appropriate Allocation of Financial Risk**  
**Version 1.0**

**Date:** 13/08/2008

**Nature and Purpose of Proposal**

*Where capitalised words and phrases are used within this Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Proposal). Key UNC defined terms used in this Proposal are highlighted by an asterisk (\*) when first used. This Proposal\*, as with all Proposals, should be read in conjunction with the prevailing UNC.*

The current credit rules within the UNC require that a User\* puts in place credit arrangements to provide security for the 12 months immediately prior to the start date of the QSEC capacity previously bought in a QSEC auction, which includes the Incremental Capacity Release Obligations. This underwriting timeframe can be misaligned with that of the costs or revenue recovery requirement incurred in meeting the auction obligations. Therefore there is currently a period of time where either of the above could be incurred prior to any commitment underwriting being in place.

As the patterns of gas delivery to the NTS\* change, and the GB market becomes increasingly dependent on overseas gas supplies, significant investment is anticipated to be required in order to develop import and storage facilities. It is also anticipated that a number of these new projects will be developed by participants that are 'new' to the GB gas market and may also be single entry point Users.

In this context, one facet of the existing credit arrangements is that there is potentially an increased risk of User default resulting in increased costs being incurred by other industry stakeholders. The entry capacity incentive arrangements from April 2007 enable National Grid Gas NTS\* to recover 5 years of incentive payments from the first month that capacity is released based on the revenue driver in the GT Licence\*. In the event that the relevant User defaults, the funded incremental obligated entry capacity can be offered for resale. However, any under-recovered revenue driver income would continue to accrue. This would, in turn, lead to the SO commodity charge payable by all Users being increased to recover the short fall in allowed revenue. In effect the shipper community holds a risk associated with the current mismatch between the credit underwriting timeframe currently in the UNC and the timeframe over which investment costs accrue.

National Grid Gas NTS therefore consider it to be prudent for the industry to review the current credit arrangements that underpin User commitments that are made during the entry capacity auctions.

It is therefore proposed that a Review Group\* be established to:

- review the existing credit security arrangements
- consider the issues which impact upon their efficient and effective operation
- develop potential solutions to resolve any issues identified where appropriate
- develop any UNC contractual changes as necessary

It is anticipated that the timescales over which the review will run will enable any consequential UNC Modification Proposals\* to be raised and implemented prior to the autumn of 2009.

Draft Terms of Reference for this Review Group have been attached to this Review Proposal\* though it is anticipated that an initial task of the Review Group will be to review and amend these Terms of Reference where necessary prior to their formal approval at the next UNC Modification Panel\*.

Furthermore it is recommended that an offer to participate in this Review Group be extended beyond current UNC signatories to include any other parties having an interest at points connected to, or likely to become connected to the NTS. This could include Storage Operators, Interconnector operators (and their Users), Developers and End Users and their representative bodies.

**Any further information (Optional)**

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** UNC Principal Document Sections B, S, & V

**Proposer's Representative**

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**Proposer**

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