

Draft Modification Report
Changes to Outstanding Energy Balancing Indebtedness Calculation
Modification Reference Number 0233
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Uniform Network Code (UNC) referenced Sections are to the Transportation Principal Document except where stated otherwise.

In light of unprecedented recent events in financial markets and the failure of Lehman Brothers Commodity Services Inc, the Energy Balancing Credit Committee (EBCC) has carried out a review of both the Energy Balancing Credit Rules (EBCR) and Section X - Energy Balancing Credit Management. This identified potential areas where, through the effective management of energy balancing credit, controls could be further tightened in pursuit of minimising Users' exposure to avoidable financial loss.

This is one of three Proposals that have resulted from discussions within EBCC. Each Proposal is essentially stand-alone and can be evaluated on its own merits.

This Proposal combines two elements which are outlined separately below.

1. Users' Ability to Appeal against Cash Call Notices

Nature

It is proposed that the provisions of Section X2.7.1 be expanded to provide opportunity for a User to provide more up-to-date data for the relevant period used within the calculation of that User's Anticipated Relevant Balancing Indebtedness. However, the provision of such data would only be accepted if it was verified by National Grid NTS after ratification against information held within its system.

Purpose

Current provisions, in respect of Cash Call appeals, do not provide sufficient flexibility to allow Users to appeal to National Grid NTS in respect of Cash Call notices where the User has more up-to-date data. In particular, a User cannot appeal on the grounds of its Outstanding Relevant Balancing Indebtedness that results from the calculation of its Anticipated Balancing Indebtedness in accordance with Section X2.5.2 (c). This situation results from the current drafting in Section X2.7.1 (c)

If the Cash Call has been enacted correctly, as a result of calculations of Anticipated Balancing Indebtedness, which forms part of the User's Outstanding Relevant Balancing Indebtedness as set out in X2.5.1(b), there are currently no grounds for appeal.

As a consequence of this drafting, there is potential for a User to be exposed to unnecessary Cash Call notices under Section X2.6. In consequence, also, Further Security Requests would be issued in accordance with Section X.2.10 if more than one such notice were issued

within 28 days of submission of a Cash Call in accordance with Section X2.6.4. In turn, the impact of such actions could result in the User experiencing adverse cash flow issues so increasing the potential of it becoming a Defaulting User.

Implementation of this Proposal would allow a User to provide more up-to-date information that contributes to that User's Daily Imbalances. Together with the relevant cash-out prices these Daily Imbalances make up that User's Outstanding Relevant Balancing Indebtedness. Use of more up-to-date information would therefore better anticipate both that User's cumulative energy balancing position at close-out and any consequent liability faced by other Users should that User be Terminated for any reason.

2. National Grid NTS's ability to process adjustments to a User's Outstanding Balancing Indebtedness

Nature

It is proposed that the provisions within Section X2.5.1 be extended to allow National Grid NTS to process an adjustment, or replace the values calculated in accordance with the formula for a User's Anticipated Relevant Balancing Indebtedness, if it has more up-to-date data available within its system than that calculated in accordance with the formula. Where such data is used, it is further proposed that National Grid NTS provide suitable supporting data to that User for validation purposes.

Purpose

As outlined above, the current provisions within Section X2.5.1(c) detail the formula by which a User's Anticipated Balancing Indebtedness is calculated. As already suggested, the current drafting provides insufficient flexibility. In addition to the constraints on the User outlined above, the drafting also imposes constraints on National Grid NTS preventing it from conducting a more up-to-date calculation of a User's Outstanding Relevant Balancing Indebtedness should it have data available within its system.

As a consequence of this drafting, Users may be exposed to unnecessary financial loss due to the lag time in actual closed out data being reported in a User's Outstanding Relevant Balancing Indebtedness. Conversely, as outlined above, it may also precipitate an unnecessary User Default.

Implementation of this Proposal would allow National Grid NTS to use more up-to-date information that contributes to a User's Daily Imbalances. Together with the relevant cash-out prices these Daily Imbalances make up a User's Outstanding Relevant Balancing Indebtedness. Use of more up-to-date information would therefore better anticipate both each User's cumulative energy balancing position at close-out and any consequent liability faced by other Users should that User be Terminated for any reason.

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

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of

- (i) the combined pipe-line system, and/ or*
- (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

The shortcomings of the current calculation allied with a lack of appeal may discriminate against Users that provide sufficient security against their actual energy balance. By removing this potential discriminatory aspect, implementation would be expected to facilitate the achievement of this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers;*
- (ii) between relevant suppliers; and/or*
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Implementation by providing a means of appeal to a User based on more up-to-date information would reduce that User's exposure to unnecessary Cash Call and, in the extreme, Termination. This would be expected to facilitate the achievement of this relevant objective.

Conversely National Grid NTS's ability to use more up-to-date information would be expected to bring forward Cash Call and other measures and so reduce the exposure of those Users to the debts of a Defaulting User.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would not be expected to better facilitate this relevant objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation 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:

In order to inform the EBCC, the Transporters currently evaluate the impact of using more up-to-date information. Implementation would not, therefore, be expected to substantially affect operating costs.

If this Proposal were implemented the Transporters would expect to automate some of the current manual processes which would incur development costs.

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

No proposal is made for the recovery of the costs outlined above.

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

No such consequence has 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 whilst National Grid NTS continues to use the current manual processes.

Some implications for the UK Link System and related computer systems will result when National Grid NTS automate the resulting processes.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Users may decide to amend their current processes in order to provide more up-to-date information, in order to reduce their exposure to Cash Calls.

Development and capital cost and operating cost implications

It is assumed that Users would evaluate the benefits prior to incurring any costs in amending current processes.

Consequence for the level of contractual risk of Users

Implementation would be expected to reduce the contractual risk of a User that benefits from supplying more up-to-date information to National Grid NTS.

Conversely, the contractual risk to other Users would be reduced due to earlier identification 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 a User's risk of unnecessary Cash Calls and Termination.
- Reduces the exposure of other Users through Balancing Neutrality Charges 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 and detailing any potentially retrospective impacts)**

Proposal could be implemented with immediate effect following 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**

- 18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity

Markets Authority in accordance with this report.

19 Text

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

For and on behalf of the Relevant Gas Transporters:

Tim Davis
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