

**CODE MODIFICATION PROPOSAL No 0233**  
**Changes to Outstanding Energy Balancing Indebtedness Calculation**

**Version 2.0**

**Date:** 31/10/2008

**Proposed Implementation Date:** 01 January 2009

**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this 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.

**b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

Urgency is not requested.

**c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

This Proposal is to be discussed at the November Transmission Workstream and consensus will be sought that it has been sufficiently developed to proceed to consultation. In order to minimise the financial risk to Users from the current methodology it is proposed that this Proposal proceeds directly to consultation with a ten day consultation period to allow the December 2008 Panel to make a recommendation.

**2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of 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 facilitate the achievement of this relevant objective.

**Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (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 facilitate the achievement of 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 facilitate the achievement of 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 facilitate the achievement of this relevant objective.

### **3 The implications of implementing this 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 this Modification Proposal, including:**

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

No such implications have been identified

**b) The 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) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

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

**d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

No such consequence has been identified.

**5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

No such requirement has been identified.

**6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of 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 for Users of implementing the Modification Proposal, including:**

**a) The 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.

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

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

**c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

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 the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

No such implications have been identified.

**9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

No such consequences have been identified.

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

**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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

None received.

**12 Detail of all other representations received and considered by the Proposer**

None received.

**13 Any other matter the Proposer considers needs to be addressed**

None.

**14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal**

It is recommended that this Proposal be implemented immediately following direction from the Authority.

**15 Comments on Suggested Text**

None

**16 Suggested Text**

To be provided

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** X2

**Proposer's Representative**

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