

Draft Modification Report
Changes to Outstanding Energy Balancing Indebtedness Calculation
Modification Reference Number 0233V
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. As an outcome of the EBCC review this Proposal was raised as one of three Proposals seeking to address some of the concerns highlighted during the review.

This Proposal combines two elements which are outlined separately below;

1. Users' Ability to Appeal against Cash Call Notices

Nature

It is proposed that Section X2.7.1 is revised such that where a Cash Call has been submitted to a User, the User may appeal the Call Cash by providing up-to-date 'closed out' data for the period in which the calculation of that User's Anticipated Relevant Balancing Indebtedness would normally be applied. The provision of such data will only be applied where the proposed replacement data can be verified by National Grid NTS after ratification against information held within its system.

Purpose

Existing UNC Cash Call appeal provisions 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 'closed out' data. Under prevailing provisions defined in paragraph X2.7.1 (c), a User cannot appeal on the grounds of its Outstanding Relevant Balancing Indebtedness when the appeal is related to the calculation of its Anticipated Balancing Indebtedness in accordance with Section X2.5.2 (c).

As a consequence of prevailing code provisions, there is potential for a User to be exposed to unnecessary Cash Call notices under Section X2.6. As a consequence further Security Requests may 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 'closed out' data which may contribute 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 where National Grid NTS becomes aware of information, available within the Public Domain and/or information provided by the User, and National Grid NTS has reasonable grounds to believe that such information may result in the User's Anticipated Balancing Indebtedness not reflecting the true extent of the User's Outstanding Relevant Balancing Indebtedness; The provisions within Section X2.5.2 be extended to allow National Grid NTS, upon direction from the EBCC, to replace or partially replace the values calculated in accordance with the formula for the User's Anticipated Relevant Balancing Indebtedness, with up-to-date closed out actual data available within its system for the relevant days. Where such data is applied, 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 X2.5.2(c) detail the formula by which a User's Anticipated Balancing Indebtedness is calculated. The prevailing arrangements impose 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 prevailing provisions, 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.

Implementation of this Proposal would, subject to direction from the EBCC, allow National Grid NTS to use more up-to-date closed out data 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 'closed out' data 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.

Closed Out Data

For the purposes of this Proposal the definition of closed out data shall be data which is, but is not limited, to:

- (i) daily trade allocations as at 07:00 on D+1;or

exit allocations closed out at D+5 (in accordance with section E1.8.1 (b))

Suggested Text

Draft Business Rules

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION X – ENERGY BALANCING CREDIT MANAGEMENT

1.2.4 Where National Grid NTS has any reasonable grounds for wishing to consult with the Energy Balancing Credit Committee in relation to any step required to be taken under this Section X, National Grid NTS may (where it has convened a meeting of such committee for the purposes for the earliest reasonable date) defer taking such step until it has consulted with such committee.

2.5 Calculation of Outstanding Relevant Balancing Indebtedness

2.5.1 In relation to each Gas Flow Day (the “**relevant Day**”), as soon as reasonably practicable after the Day on which (pursuant to Section E2.1.2) initial Entry Allocation Statements are required to be submitted to National Grid NTS, or in accordance with paragraph 2.5.6 or 2.7.6, National Grid NTS will calculate for each User:

- (a) the amount of the Relevant Balancing Charges for the relevant Day; and
- (b) the amount of the Outstanding Relevant Balancing Indebtedness.

2.5.2 For the purposes of this Section X:

- (a) “**Relevant Balancing Charges**” means the Daily Imbalance Charges, Scheduling Charges, Basic Balancing Neutrality Charges and Physical Renomination Incentive Charges which would (on the basis set out in paragraph 2.5.3) be payable, and the Market Balancing Action Charges and other charges in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements which are payable, by or to each User in respect of the relevant Day;
- (b) “**Basic Balancing Neutrality Charges**” are the amounts that would be determined as Balancing Neutrality Charges in accordance with Section F4 on the basis that the Unit Daily Neutrality Amount (under Section F4.3) is calculated on the basis of the Basic Net Neutrality Amount only, and disregarding the Adjustment Neutrality Amount;
- (c) “**Anticipated Balancing Indebtedness**” for each User (other than the Trading System Operator) is an amount calculated, in

respect of all Days in the relevant period (each such day ('i')), in accordance with the following formula:

$$ABI = \sum_{i=d-n}^{d-1} \left(ADSAP_i * \sum_{j=i-n-9}^{i-n} \frac{DI_j}{10} \right)$$

where:

ABI is the Anticipated Balancing Indebtedness;

ADSAP_i is the Adjusted System Average Price for a Day, 'i', being any Day falling during the relevant period, which shall be the System Average Price for that Day 'i'; except where either:

- (i) the SAP the Day 'i', is greater than the mean of the SAPs for the previous 10 days plus 1.96 times the standard deviation of the SAPs for the previous 10 days ("the Upper Limit"), in which case the ADSAP shall be equal to the Upper Limit; or
- (ii) SAP the Day 'i', is less than the mean of the SAPs for the previous 10 days minus 1.96 times the standard deviation of the SAPs for the previous 10 days ("the Lower Limit"), in which case the ADSAP shall be equal to the Lower Limit.

DI_j is the User's Daily Imbalance for the Day 'j' falling during the Imbalance Period (being a positive or (as the case may be) negative amount in accordance with Section E5.1.2);

d is the relevant Day;

n is the number of days in the relevant period;

“**relevant period**” is the period from (and including) the 7th Business Day preceding the relevant Day, d, until (and including) the Day preceding the relevant Day ('d-1');

“**Imbalance Period**” is the period from and including nine Days preceding the day 'i-n' until (and including) the day 'i-n';

(d) In accordance with paragraph X1.2.4, in the event that:

- (i) National Grid NTS becomes aware of information, available within the Public Domain and/or information provided by the User, and National Grid NTS has reasonable grounds to believe that such information may result in the User's Anticipated Balancing Indebtedness

not reflecting the true extent of the User's Outstanding Relevant Balancing Indebtedness; and

- (ii) recalculating the Anticipated Balancing Indebtedness in accordance with paragraph (cc) the User's Outstanding Relevant Balancing Indebtedness is increased to the extent that it exceeds the User's Cash Call Limit,

National Grid NTS shall convene an Energy Balancing Credit Committee meeting to determine whether further steps are required.

- (aa) As soon as reasonably practicable, and on behalf of the EBCC, National Grid NTS will contact the User and advise of the intention to convene the EBCC meeting to discuss the reassessment of the User's Outstanding Relevant Balancing Indebtedness.

- (bb) For validation purposes National Grid NTS will provide or refer to the Public Domain data referred to in paragraph d (i) to the User.

- (cc) In accordance with X2.5.2 (d) upon direction from the EBCC, National Grid NTS shall revise the Outstanding Relevant Balancing Indebtedness by replacing or partially replacing the sum of the User's Anticipated Balancing Indebtedness with actual 'closed out' data for the relevant days. Such data may relate but is not limited to:

- (iii) daily trade allocations closed out at D+1;or

- (iv) exit allocations closed out at D+5

(ed) "Outstanding Relevant Balancing Indebtedness" for each User (other than the Trading System Operator) means (subject to paragraph (g)) the sum of:

- (i) the net aggregate amount (payable by or to the User) of the Relevant Balancing Charges for each Day of the Uninvoiced Period;
- (ii) the Net Invoice Amounts in respect of all Energy Balancing Charges under each Energy Balancing Invoice which has been submitted for which the Invoice Due Date is on or after the calculation Day;
- (iii) the Net Invoice Amounts in respect of all Energy Balancing Charges under each Energy Balancing Invoice which has been submitted for which the Invoice Due Date is before the calculation Day and which have not been paid by the User; and
- (iv) the User's Anticipated Balancing Indebtedness less the amount (excluding any interest earned thereon) of any

Cash Call which has been paid by the User and not for the time being applied in or towards payment of any Invoice Amount under paragraph 2.8; and

- (v) any revision to the Anticipated Balancing Indebtedness resulting from paragraph X2.5.2 (d).
 - (fe) the “**calculation Day**” is the Day on which National Grid NTS makes the calculation under paragraph 2.5.1;
 - (gf) for the purposes of paragraph (ed) (i) the “**Uninvoiced Period**” is the period from the first Day of the earliest Billing Period in respect of which no Energy Balancing Invoice has been submitted to the User up to and including the relevant Day;
 - (hg) subject to paragraph 2.5.7 in determining the amount of a User's Outstanding Relevant Balancing Indebtedness, National Grid NTS will make an appropriate allowance for any material unpaid amount which may be payable to the User pursuant to Section F1.4;
 - (ih) in determining Outstanding Relevant Balancing Indebtedness, amounts payable by the User shall be positive, and amounts payable to the User shall be negative; and where Outstanding Relevant Balancing Indebtedness would otherwise be negative it shall be deemed (for the purposes of this Section X only) to be zero;
 - (ij) “**Outstanding Relevant Balancing Indebtedness**” for the Trading System Operator means the sum of:
 - (i) the net aggregate amount (payable by or to the User) of the Relevant Balancing Charges for each Day of the Uninvoiced Period;
 - (ii) the Net Invoice Amounts in respect of all Energy Balancing Charges under each Energy Balancing Invoice which has been submitted for which the Invoice Due Date is on or after the Calculation Day; and
 - (iii) the Net Invoice Amounts in respect of all Energy Balancing Charges under each Energy Balancing Invoice which has been submitted for which the Invoice Due Date is before the Calculation Day and which have not been paid by the User;
- less
- (iv) the amount (excluding any interest earned thereon) of any Cash Call which has been paid by the Trading System Operator and not for the time being applied in or towards payment of any Invoice Amount under paragraph 2.8.

2.5.3 The Relevant Balancing Charges and a User's Anticipated Balancing Indebtedness will be calculated in respect of each Gas Flow Day on the basis of the amounts determined as the User's UDQIs on the basis of

initial Entry Allocation Statements, applying (where relevant) the provisions of Section E2.1.8 or E2.1.9, and on the basis of the User's UDQOs determined in accordance with Section E3.

2.5.4 Users acknowledge that:

- (a) subject to paragraphs 2.5.6, 2.7.6 and 2.5.7, the calculation of Relevant Balancing Charges and a User's Anticipated Balancing Indebtedness will disregard any revision of initial Entry Allocation Statements pursuant to Section E2.1.3;
- (b) the calculation of Outstanding Relevant Balancing Indebtedness takes no account of Energy Balancing Charges which either may become payable by National Grid NTS to a User, or may become payable by a User to National Grid NTS, in respect of Days after the relevant Day and up to the calculation Day.

2.5.5 For the avoidance of doubt paragraph 2.5.4 is without prejudice to the subsequent determination of Energy Balancing Charges for the purposes of submission of an Energy Balancing Invoice.

2.5.6 Subject to paragraph 2.5.7, where:

- (a) any Entry Allocation Statement submitted in respect of any Day in the Uninvoiced Period has been revised (in compliance with the requirements of Section E2.1.3) so as to reduce the UDQI of any User; and
- (b) any User so requests National Grid NTS by notice given not less than 5 Days before the Entry Close-out Date; and
- (c) the amount by which such UDQI was so reduced exceeds whichever is the greater of:
 - (i) 2,000,000 kWh (68,260 therms); and
 - (ii) an amount determined as 10% of the aggregate of the User's UDQIs (determined as at the time of such request) for all System Entry Points for the relevant Day,

National Grid NTS will as soon as reasonably practicable recalculate the amount of all Users' Outstanding Relevant Balancing Indebtedness on the basis of the revised UDQIs under all of the revised Entry Allocation Statements for the relevant Day.

2.5.7 Paragraphs 2.5.2(b), 2.5.2(c), 2.5.2(d), 2.5.2 (e), 2.5.2(gh), 2.5.3, 2.5.4(a) and 2.5.6 shall not apply to the Trading System Operator.

2.7 Cash Call Appeals

2.7.1 Where:

- (a) a Cash Call (the **“relevant”** Cash Call) has been submitted to a User;
- (b) the amount of the relevant Cash Call, alone or in aggregate with any other Cash Calls made to the User in the same calendar month, exceeds whichever is the lesser of £1,000,000 and 20% of the User's Cash Call Limit; and

- (c) the User considers that the amount of the relevant Cash Call has been calculated erroneously; and/or
- (d) the User provides closed out data, for the relevant days, which seeks to replace or partially replace data calculated through the Anticipated Balancing Indebtedness.

the User may, not later than 12:00 hours on the Business Day on which the relevant Cash Call is (in accordance with paragraph 2.8.1, disregarding paragraph 2.7.8(a)) due for payment, so notify National Grid NTS, specifying in as much detail as is possible the User's reasons for so considering.

2.7.2 Where a User gives a notification under paragraph 2.7.1:

- (a) the relevant Cash Call (and the obligation of the User to make payment thereof) will be suspended, subject to paragraph 2.7.3;
- (b) National Grid NTS will review the details provided by the User and will review the calculations made of the User's Outstanding Relevant Balancing Indebtedness;
- (c) if requested by National Grid NTS the User shall provide by telephone or facsimile any further details or explanation of its view.

2.7.3 Following its review under paragraph 2.7.2(a) National Grid NTS will as soon as reasonably practicable (and wherever possible within 24 hours after the User's notification under paragraph 2.7.1):

- (a) where it is reasonably satisfied that;
 - (i) there has been or may have been such an error; or
 - (ii) closed out data, for the relevant days, submitted by the User as a result of paragraph 2.7.1 (d) is bonafide,withdraw the relevant Cash Call or revise the relevant Cash Call accordingly and submit the revised Cash Call to the User;
- (b) otherwise, notify the User that the original Cash Call remains valid (and is no longer suspended);

and any such revised Cash Call or notification shall be substantially in the form set out in the Energy Balancing Credit Rules, and if given on a Day which is not a Business Day or after 17:00 hours on a Business Day shall be treated as having been given on the next following Business Day.

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 data, 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 data would be expected to bring forward Cash Call and other measures and so reduce the exposure of general 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

xoserve does not anticipate any notable implications associated with operation of the proposed manual processes required if this Proposal were implemented.

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 'close out' data. Implementation would not, therefore, be expected to substantially affect operating costs.

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

xoserve, on behalf of National Grid NTS, has advised that capital and operating costs are unlikely to notably increase, therefore no User Pays recovery of cost implications are anticipated to be associated with this Proposal.

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

It is proposed that the changes required to support implementation will be achieved through manual processes, therefore no such implications are anticipated.

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 carry cost/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)

This 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
Chief Executive, Joint Office of Gas Transporters