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23 August 2010

Dear Bob,

Modification Proposal 0315: To Enhance Section X of the UNC Transportation Principal Document to improve the Energy Balancing Further Security Process

Thank you for the opportunity to comment on the above Proposal.

National Grid NTS wishes to provide comments on this Proposal.

We understand that this Proposal has been developed in conjunction with the Energy Balancing Credit Committee (EBCC). The Proposal seeks to address weaknesses, identified by the EBCC, associated with existing Energy Balancing Code Credit Rules which relate to Further Security Requests. Under prevailing Energy Balancing Credit Rules a User that is running a persistent imbalance is not required to maintain an appropriate level of security to accommodate its level of energy balancing activities through the month and therefore the User will be repeatedly Cash Called and issued with Further Security Request. The EBCC expressed particular concern that under prevailing Code arrangements there are no incentives in place which might discourage a User from 'topping up' its security to meet its short term credit requirements.

We agree with the Proposer that under prevailing arrangements the requirement for National Grid NTS, acting on behalf of the community, to repeatedly issue Cash Call Notices and Further Security Requests is inefficient and not economic, therefore we would agree that introducing a mechanism which may reduce the level of notices and requests being issued could represent an improvement in respect of Standard Condition A11.1 (c): the efficient discharge of the licensee's obligations under this licence. However we are mindful that whilst the Proposal seeks to introduce an incentive which encourages a User to put in place sufficient security to cover its energy balancing activity, the Proposal cannot guarantee a User will behave in this manner. We note that if the changes fail to incentivise Users' putting in place appropriate levels of security there may be a risk that the proposed changes introduce greater complexity, and potentially introduce costs, in the absence of any

positive benefit through reduction in the amount of administration National Grid NTS is required to undertake as part of Energy Balancing Credit management.

The Proposer has indicated that this Modification Proposal *'draws learning from the Transportation Credit Arrangements where similar actions are taken in accordance with V3.2.2.'* The change referred to by the Proposer was implemented in February 2008 as a result of Modification Proposal 0145 – 'Management of Users Approaching and Exceeding Code Credit Limit' and introduced the 80% value of Surety or Security clause in UNC V3.3.2 (a). During Review Group 0252 – 'Review of Network Operator Credit Arrangements' the Review Group expressed concern *'as to enforceability of this clause, coupled with confusion as to its intent which could not be adequately linked to the BPG (Best Practise Guidelines).'* In light of these views Modification Proposal 0298 – 'RG0252 Proposal 1: Amend and remove UNC TPD Section V3 text inconsistencies, errors and bi-lateral insurance clause', was raised as it was deemed appropriate to remove the clause so as to avoid confusion and potential inconsistency within the UNC. In addition to the removal of V3.3.2 RG0252 recommended raising Modification Proposal 0303 – 'RG0252 Proposal 6: Obligation for Users to Maintain a Code Credit Limit and at a reasonable level' this Proposal seeks to effectively replace UNC section V3.2.2 and mitigate the impact that 'topping up' behaviours had on the financial risk and administrative efficiencies associated with Transportation Credit. We note that the August 2010 Modification Panel recommended the implementation of these Proposals, which have now been submitted to Ofgem for a decision.

In summary National Grid NTS believes that there is merit in the intent of this Proposal, however as noted above it remains unclear and unproven whether or not the proposed approach will resolve the concerns the EBCC and the Proposer seek to address.

Please let me know if you require any further information to enable preparation of the Final Modification Report.

Yours sincerely

Claire Thorneywork
National Grid NTS