

## Representation

### Draft Modification Report

#### 0350 - Combining the NTS entry capacity and exit capacity credit checks

**Consultation close out date:** 11 March 2011

**Respond to:** enquiries@gasgovernance.co.uk

**Organisation:** National Grid NTS

**Representative:** Beverley Viney

**Date of Representation:** 10 March 2011

#### Do you support or oppose implementation?

Support

#### Please summarise (in one paragraph) the key reason(s) for your support/opposition.

As proposer of Modification Proposal 0350 (Mod 0350) we support this proposal. The industry has for sometime been evaluating the current UNC credit arrangements for Quarterly NTS entry capacity and in particular the issue where a User at a single Entry Point would effectively be able to keep deferring their long term entry capacity commitments indefinitely without incurring any effective penalty. Combining the NTS entry and exit capacity credit checks together allows sections B2.2.15 and B2.2.16 to be deleted, thus removing the aforementioned ability for a User to allow their entry capacity to lapse. This then improves the effectiveness of existing incentives for Users to provide the appropriate level of security to cover their NTS entry capacity commitment and pay any associated capacity invoice that is levied. Should the User have insufficient credit in place or fail to pay their invoices they may ultimately face termination in accordance with UNC TPD Section V. We also believe that this proposal may also serve to discourage speculative Quarterly NTS Entry Capacity auction bidding, thus reducing the risk of system investment being subsequently undermined by a User default.

#### Are there any new or additional issues that you believe should be recorded in the Modification Report?

We do not believe there are any new or additional issues to record within the Modification Report.

#### Relevant Objectives:

*How would implementation of this modification impact the relevant objectives?*

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Representation

dd month 2011

Version 1.0

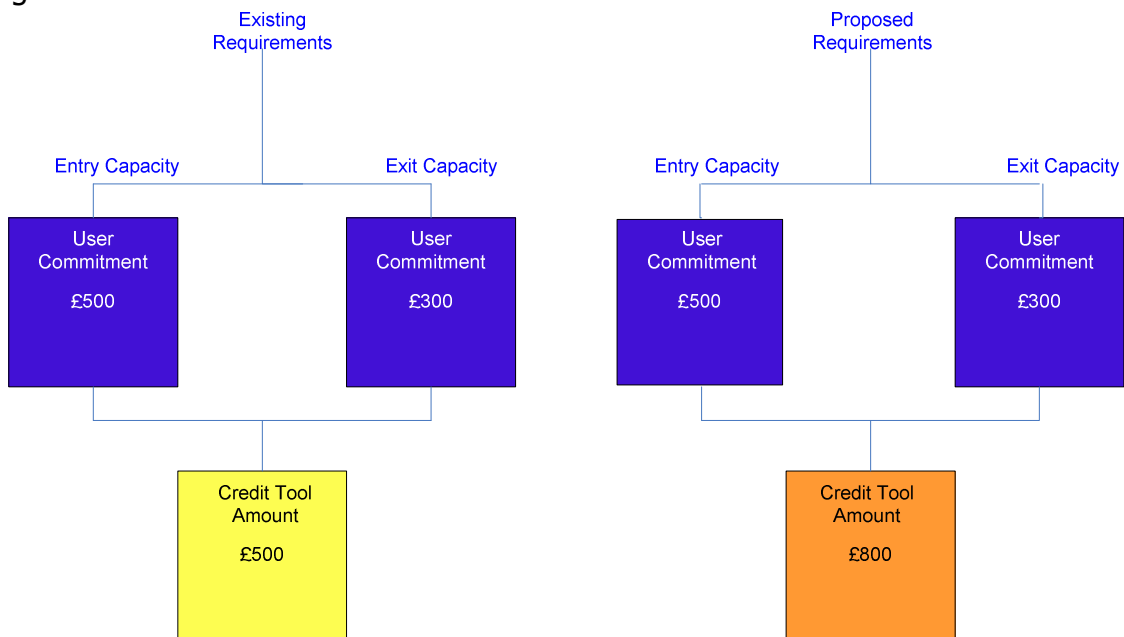
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National Grid NTS believes that Modification Proposal 0350 better the following relevant objectives for the reasons outlined below; a) Efficient and economic operation of the pipe-line system, c) Efficient discharge of the licensee's obligations, d) Securing of effective competition and f) Promotion of efficiency in the implementation and administration of the Code

We consider this proposal may discourage speculative auction bidding as the bidder would be aware of the revised credit arrangements and sanctions that could be applied. It will therefore give National Grid NTS and the wider shipper community greater assurance over the appropriateness of any associated system investments and/or allowed revenue returns, as the bidder will be required to pay for the entry capacity allocated. Therefore we believe this better Relevant Objective a) and c).

Shippers will be required to provide credit/security to cover the total value of the next 12 months of NTS entry and exit capacity. Where as under the current arrangements of two separate credit processes a shipper could use a lower level of credit/security to cover their next 12 months of entry and exit commitment. This change reduces the risk and ultimately the level of charges being levied on the rest of the Shipper community as a result of a User default and therefore we believe it also better Relevant Objective d). This change is illustrated in the following diagram.



This proposal also reduces UNC Parties administrative requirement as they will only need to monitor one credit process instead of two separate credit arrangements. We believe this better Relevant Objective f).

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if this modification were implemented?*

National Grid would face no ongoing costs as a result of implementation of this proposal.

There will be an impact on some shippers as they will be required to provide additional credit/security (currently estimated at around £14.75m) to cover their total capacity commitment. The cost of doing so will depend on the security tools available to them but based on some previous analysis performed by National Grid Transmission for Modification Proposal 0246, it is estimated that the costs could be in the range of £0 to £1m.

### **Implementation:**

*What lead-time would you wish to see prior to this modification being implemented, and why?*

It is proposed that 0350 is implemented on the 1st of the month, 1 calendar month after the decision i.e. if the direction to implement was received on 15th January, then 1 calendar month after is 15th February and the 1st would be 1st March, the implementation date in this example would be 1st March.

We believe that this topic has had wide industry discussion and feel that great effort has been made to ensure that those affected by this proposal are aware of it.

The proposed implementation plan would allow time for changes to the credit administration processes conducted by National Grid NTS and Shippers.

It should be noted that Users will only be required to provide credit/security to cover 12 months of exit capacity from 1<sup>st</sup> October 2011 (12 months prior to the start of the new exit capacity arrangements).

We hope that the Authority decision will be made well in advance of this date ensuring that Users can be informed by National Grid NTS of their revised credit requirement (including the affect of combining the entry and exit capacity checks), allowing Users time to put sufficient credit in place.

If Users have concerns with regards to this implementation plan then we would welcome their comments.

### **Legal Text:**

*Are you satisfied that the suggested legal text will deliver the intent of the modification?*

National Grid NTS welcomes any comments submitted with regards to the suggested text.

**Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.*

No