

CODE MODIFICATION PROPOSAL No 0310
RG0252 Proposal 13: Removal of DNO Users from UNC TPD V3.3.4
Version 2.0

Date: 10/06/2010

Proposed Implementation Date: 01/10/2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

WWU raised Review Group 0252 “Review of Network Operator Credit Arrangements” in April 2009. This was convened to discuss the appropriateness of the existing credit management arrangements, taking into account the many credit related issues which had occurred since the publication of Ofgems “Best practice guidelines for gas and electricity network operator credit cover” (BPG) document.

This specific proposal seeks to remove the current credit requirement within UNC (V3.3.4) which would lead to the unnecessary ‘over securitisation of DNO’s from October 2012. Removing this DNO reference would additionally remove the differential treatment which currently exists whereby NGD and NTS are a single entity for credit purposes (and as such NGD are not governed by this credit requirement but the iDNOs are).

The inclusion of this UNC term arose through the implementation of UNC Modification proposal 0195AV “Introduction of Enduring NTS Exit Capacity Arrangements”. No justification for its inclusion was in this (0195) proposal, other than all Users were to be treated similarly (except National Grid Distribution) for this specific clause. A series of options were presented to the Transmission Workstream on 03 December 2009 to deal with this anomaly. The option presented in December 2009 included the specific elements within this proposal.

- To remove DNOs from the requirements of V3.3.4 (for the avoidance of doubt Shipper Users will still be subject to this clause).

The effect of this paragraph is to require DNO Users to provide, with effect from 01 October 2012, credit cover equivalent to the cost of twelve months Exit (Flat) Capacity. Currently Users’ Value at Risk is defined in Section V, paragraph 3.2.1 (d) (i) and (ii). In this paragraph Value at Risk is defined as the amount invoiced to the User remaining unpaid plus the average daily charge invoiced to the User in the previous calendar month multiplied by 20. Energy Balancing charges are excluded. Normally, therefore, the Value at Risk for a User will be equivalent to the cost of 51 days Exit (Flat) Capacity charges.

To move from providing credit cover for 51 days to credit cover for 12 months will represent a significant increase in costs for DNO Users. The justification for this is not clear as Exit Reform does not involve any great change in the circumstances under which Exit Capacity is sold by the NTS.

The credit cover required for Entry Capacity is already 12 months but this is understandable in view of the greater uncertainty associated with the Entry Capacity auction regime and the need to discourage speculative bidding. However no such considerations apply to the Exit Capacity regime, and therefore there is no need to increase the current 51 days credit cover for the DNOs.

This Modification proposal therefore proposes that paragraph V.3.3.4 in UNC TPD Section V should be amended to exclude DNO Users from this requirement.

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

Not applicable.

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 was originally developed within the remit of Review Group 0252, which recommended diluting the credit obligations on DNOs in respect of this specific clause in the UNC. This approach has been shared at Distribution and Transmission workstreams in December 2009, and January, May, June 2010. Accordingly the Proposer believes the Proposal is sufficiently developed to enable it to proceed to consultation.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This Proposal is not classified as a User Pays Modification Proposal as it does not create or amend any User Pays Services.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

No User Pays charges applicable.

c) Proposed charge(s) for application of Users Pays charges to Shippers

No User Pays charges applicable.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

3 **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**

The Proposer believes that implementation would further the GT Licence 'Code relevant objective(s)' of Standard Special Condition A11. Network Code and Uniform Network Code

Condition	
1a- efficient and economic operation of the pipeline system to which licence relates	✓
1b- co-ordinated, efficient and economic operation of (i) combined pipeline system and/or (ii) pipeline system of one or more other relevant gas transporters	
1c- consistent with (a) and (b) above, efficient discharge of licensees obligations	
1d- securing of effective competition between (i) Relevant shippers (ii) Relevant suppliers and/or (iii)DN operators	✓
1e-provision of reasonable economic incentive for relevant suppliers to secure that domestic customer supply standards are satisfied	
1f- promotion of efficiency in the implementation and administration of the uniform network code	✓

1a - This proposal will assist the economic operation of the DN pipeline systems for the iDNOs by avoiding an increase in the cost of operating the systems for which there is no offsetting benefit. The cost will vary depending on the credit rating of the company seeking the cover and the amount of cover required.

1d - The Proposer believes that implementation would further the GT Licence Code relevant objective of securing effective competition between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. Removing this UNC requirement would re-instate a level playing field whereby all Distribution Networks were treated the same by National Grid NTS.

1f - Removing this requirement would ensure all Users had similar credit arrangements with all Distribution Networks. Retaining the existing requirement would create a two tier credit arrangement with Users requiring proportionately higher levels of securitisation with the iDNOs compared to National Grid Distribution.

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

No such implications identified.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

No such implications identified.

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

No such implications identified.

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 additional cost recovery period is proposed.

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

The contractual risk to National Grid NTS (from the non NG Distribution Networks) theoretically increases, however Transporters broader Licence obligations in terms of indebtedness and required investment grade requirement etc more than compensate for this.

6 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.

7 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 changes have been identified.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

No implications have been identified.

b) The development and capital cost and operating cost implications

To be advised by Users.

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

The only theoretical (increased level of) risk rests with National Grid NTS with the proposal.

9 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.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

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

Advantages

- Ensures DNOs are not over securitised in respect of potential charges to National Grid NTS.
- Removes differential treatment between NG Distribution and other
- DNO's in respect of credit arrangements with NG NTS. Removal of over securitisation will reduce costs for shippers (and consumers)

Disadvantages

- Decreases securitisation for National Grid NTS in respect of NTS capacity charges booked by some GDNs.

12 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)

No such representations have been received, save for the support received from during the Review Groups work.

13 Detail of all other representations received and considered by the Proposer

No such representations have been received.

14 Any other matter the Proposer considers needs to be addressed

The proposer believes that no additional matters require consideration.

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

It is suggested that this Proposal be implemented on 1st October 2010 to coincide with the implementation of the other credit proposals being considered in this timeframe. Should this date not be achievable, then implementation could take place immediately following an Authority direction.

16 Comments on Suggested Text

The suggested amendment to V3.3.4 takes account of the removal of DNO User.

17 Suggested Text

Proposed Change to TPD V 3.3.4

For the purposes of paragraph 3.3.2(c)(i) and (iii) and the application of Section B3.3.3(f), a User's (excluding DNO Users) Value at Risk shall be treated as including the aggregate NTS Exit (Flat) Capacity Charges payable by the User for each Day in the following twelve (12) calendar months commencing from the first Day of the calendar month following the Day in respect of which the User's Value at Risk is to be determined.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) V3.3.4

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