0585 - Separation of NTS and National Grid owned networks - Calculation of Code Credit Limit and Value at Risk

Chris Warner

National Grid Distribution

- Background

  - UNC Modification 0582S raised to facilitate separation of Distribution business from National Grid Gas Plc (NGG)
  - National Grid Distribution (NGD) decided that Credit Management implications of separation best dealt with through separate UNC Modification (predicated on 0582S framework)

Why is UNC Modification necessary?

- Consequences of Shipper Users not having in place a Code Credit Limit (CCL) with National Grid Gas Distribution Ltd (NGDDL)?
- Non compliance with TPD Section V 2.1.2 (g)
- *Where the Applicant User wishes to become a Shipper User, the Applicant User shall have been assigned an initial Code Credit Limit in accordance with paragraph 3*
- Upon the first invoice being raised a 100% breach will occur. Under UNC the breach needs to be remedied within D+2 days

- Principles

  - Shippers to determine and assigned a CCL prior to the point a value at risk occurs
  - Proposal seeks to provide support to the Shippers in advance of the separation to secure a CCL for NGGDL.
  - Shippers who currently have an unsecured CCL with National Grid Gas need to understand that there will be a revision to the allowances at the point the businesses separate
  - Any instrument that is currently for the benefit of National Grid Gas cannot be utilised for the benefit of NGGDL
  - Does not seek to change the basis of the Shipper Users CCL for National Grid Gas

- Solution
  - At the point of separation (1st October 2016) no invoices would have been raised by NGGD, the first invoice will be raised on 6th October 2016, LDZ Capacity.
  - This means that for the new business there is no historic data on which to base a recommended CCL
  - NGG does have the historic data for distribution charges issued to Shipper Users up until the point of separation so can in advance of 1st October 2016 calculate a recommended CCL for Shipper Users that accede to the new business.
  - Business separation occurs on 1st October 2016. NGD wishes to avoid the possibility of the majority of Shipper Users being 100% in breach of their CCL
  - 19th October 2015 is proposed as the basis of the recommended NGGDL CCL

nationalgrid

- Rationale

  - NGD unable to predict the value of the distribution invoices which will be raised during October 2016
  - Need to assist Shipper Users to have in place a CCL for NGGDL by 30th September 2016
  - Need to identify what historic data could be reasonably utilised to predict the potential Value at Risk (VAR) a Shipper User would incur during October 2016 and from there the CCL required
  - On or around the 19th of each month the peak VAR occurs.
  - All elements specific to NTS stripped out
  - Will not take into account increases in trade post 19th October 2015. There is an obligation on Shipper Users to consider whether the recommended CCL is sufficient to support their potential NGGDL VAR

- In the case of Users who are not party to the Code:

  - On 30 September 2015, the VAR will be determined by reference to the User's peak VAR in the period to 31 August 2016;
  - On 31 August 2016, the VAR will be the forecast VAR used by National Grid for the purposes of determining the User's initial CCL on the User's accession to UNC

- Self governance procedures not requested although would like to gauge opinion of Panel members as NGD believes changes are not material (0582S amended to further minimise Credit impacts).

- Distribution Workgroup discussion – 23rd June 2016

  – NG credit expert and lawyer will be present
  – request Workgroup Report to July 2016 Modification Panel

- Suggest deferral of 0582S consultation until 0585 assessment complete – then parallel consultation