Stage 01: Modification

At what stage is this document in the process?

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

0XXX: *(Joint Office to insert number)*

Mod Title: Separation of NTS and National Grid owned networks – Calculation of Credit Management and Value at Risk

In relation to the proposed sale of National Grid's distribution networks, this modification identifies Credit Management related changes to the UNC Transition Document to enable the calculation of the Code Credit Limit and determination of the Value at Risk immediately following the hive-across date.

The Proposer recommends that this Modification should be:

- Not subject to self-governance
- assessed by a Workgroup

Low Impact: Gas Transporters and Shippers

Contents

About this document:

This modification will be presented by the proposer to the panel on 16th June 2016.

The panel will consider the proposer's recommendation and agree whether this modification should be:

- not subject to self-governance
- referred to a workgroup for assessment.

The Proposer recommends the following timetable:	
Initial consideration by Workgroup	23 June 2016
Workgroup Report presented to Panel	21 July 2016
Draft Modification Report issued for consultation	21 July 2016
Consultation Close-out for representations	11 August 2016
Final Modification Report available for Panel	12 August 2016
UNC Modification Panel recommendation	18 August 2016

Any questions?

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1 Summary

Is this a Self-Governance Modification?

It is proposed that this Modification should not be subject to self-governance procedures. This is because the identified changes have a material effect on gas consumers or on competition. This is because the changes required are to facilitate calculation by Shipper Users of a sustainable Transportation Code Credit Limit during the hive-across period.

Is this a Fast Track Self-Governance Modification?

Fast Track procedures are not requested.

Why Change?

National Grid Gas plc (National Grid) currently owns and operates the NTS and 4 networks; North West, West Midlands, East Midlands and London (comprising National Grid Gas Distribution (NGGD). Though the UNC currently recognises National Grid as owner and operator of the NTS and as a Distribution Network Operator (DNO), it treats National Grid as a single party with a single network code. National Grid is proposing to transfer the business and assets of NGGD to a new company (NewCo). UNC Modification 0582 has been raised to facilitate the changes required to UNC to expedite separation.

This Modification is complementary to, and contingent upon the implementation of, Modification 0582, which effects into the UNC the changes in structure at hive-across.

The UNC requires Users to put in place credit for their transportation liabilities, which currently are a consolidated position for National Grid and need to be split. It ensures the appropriate calculation of a Shipper User's Transportation Code Credit Limit (CCL) is driven by the Transportation Credit 'Value at Risk' (VAR) determination for NewCo immediately following the 'hive-across' date.

Solution

Modification of the UNC (Transition Document) is proposed as follows:

- A Shipper User's NewCo CCL will be determined prior to the hive-across date of 1st October 2016
- A Shipper User's CCL as at the hive-across date for NewCo would be calculated based on the revised VAR based on the Distribution elements of the invoices issued by National Grid Gas as at [19th August 2016] and advised to Shipper Users on [22nd August 2016].

For the avoidance of doubt no enduring provisions are required.

Relevant Objectives

This Modification furthers relevant objective f) Promotion of efficiency in the implementation and administration of the Code because it ensures that a Shipper User's VAR is calculated correctly such that the risk to the industry of a breach of its CCL by a defaulting Shipper User is minimised.

Implementation

Given that self-governance procedures are proposed, implementation could be sixteen Business Days following a Modification Panel decision to implement, subject to no Appeal being raised.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Neither the Switching SCR nor implementation of Project Nexus is impacted.

2 Why Change?

The calculation of a Code Credit Limit ('CCL') and determination of Value at Risk ('VAR') are requirements under TPD Section V Paragraph 3.

The VAR mechanism determines the minimum value of a Shipper User's CCL. The VAR at any one point in time is deemed to be:

- the aggregate value of all Transportation charges which at that time have been invoiced to the User that remain unpaid (regardless of whether the Invoice Due Date has passed), and
- The average daily rate of the aggregate amount of Transportation Charges invoiced to the User in the previous calendar month multiplied by 20.

This determines the minimum value of the CCL a Shipper User is required to establish with the Transporter. At any point in time, the User's CCL must be equal to or greater than its VAR.

The UNC further requires that the User's VAR should not exceed 100% of its CCL and in such instances the User has 2 Business Days from the day of breach to remedy such breach.

Capacity charges are invoiced to Shipper Users in arrears i.e. LDZ Capacity Charges for September 2016 will be invoiced on 6th October 2016 by 'Newco'.

Where a User, parent company or qualifying company has an Approved Credit Rating the unsecured credit limit is based on 2% National Grid's Regulated Asset Value (RAV). It should be noted that currently the unsecured calculation is based on the combined Transmission and Distribution RAV (2015/6).

The data, including paid and unpaid items, will remain with National Grid apart from the unpaid Distribution items. These items will be migrated to the NewCo. The VAR will be recalculated for each Shipper at 1st October 2016.

The following tables illustrate the current limit, £value, and revised limits upon hive-across:

Example
Shipper A @ 30th September 2016 in CC 1000 (for this example all amounts are fictitious).

6/9/16 Distribution charge	**£100 – paid 20/9**
6/9/16 Transmission charge	**£100 – paid 20/9**
6/9/16 Transmission charge	**£100 – paid 20/9**
12/9/16 T&D charges	**£100 – paid 23/9**
12/9/16 Transmission charge	**£100 – paid 23/9**
12/9/16 Distribution charge	**£100 – paid 23/9**
22/9/16 Distribution charge	**£100 – Unpaid due for payment 4/10**
26/9/16 T&D charges (£50 each)	**£100 – Unpaid due for payment 7/10 (£50 each)**
26/9/16 Transmission charge	**£100 – Unpaid due for payment 7/10**

VAR calculation
£600 (total of items in red) divided by 30 multiplied by 20 = £400
Plus unpaid invoices £300 (total of items in blue)
VAR = £700 @ 30th September 2016

Shipper A @ 1st October 2016 in CC 1000 Retained

6/9/16 Distribution charge	£100 – paid 20/9
6/9/16 Transmission charge	£100 – paid 20/9
6/9/16 Transmission charge	£100 – paid 20/9
12/9/16 T&D charges	£100 – paid 23/9
12/9/16 Transmission charge	£100 – paid 23/9
12/9/16 Distribution charge	£100 – paid 23/9
26/9/16 Transmission	£50 – Unpaid due for payment 7/10
26/9/16 Transmission charge	£100 – Unpaid due for payment 7/10

VAR calculation
£600 (total of items in red) divided by 30 multiplied by 20 = £400
Plus unpaid invoices £150 (total of items in blue)
VAR = £550 @ 1st October 2016

Shipper A @ 1st October 2016 in CC 1035 gas Distribution

22/9/16 Distribution charge	£100 – Unpaid due for payment 4/10
26/9/16 Distribution	£50 – Unpaid due for payment 7/10

VAR calculation
£0 (No historic data divided by 30 multiplied by 20 = £0
Plus unpaid invoices £150 (total of items in blue)
VAR = £150 @ 1st October 2016

It is therefore necessary to mitigate the risk to the industry of a Shipper User defaulting on the un-invoiced value to the 5th October 2016 or invoiced value on the 6th October 2016 by:

- calculating a CCL for the User effective from 1st October 2016
- calculating a 'reflective' VAR
- avoiding a need to issue 100% breach notices on 6th October requiring the User to remedy such breach within 2 days to avoid sanctions and ultimately termination

This change is required because the hive-across event creates a separate transportation company and the existing National Grid CCL would revert to the Transmission network automatically. Therefore the addition is required for NewCo.

3 Solution

Modification of the UNC (Transition Document) is proposed as follows:

- A Shipper User's NewCo CCL will be determined prior to the hive-across date of 1st October 2016
- A Shipper User's CCL as at the hive-across date for NewCo would be calculated based on the revised VAR based on the Distribution elements of the invoices issued by National Grid Gas as at [19th August 2016] and advised to Shipper Users on [22nd August 2016].

  Note, A User's 'peak' VAR is consistently around the 19th of each month. Consequently the VAR on the [19th August 2016] would be utilised as a deemed value for the calendar month being each day in October to apply on 1st October 2016.

This would provide sufficient time for Users that do not have unsecured credit to acquire security or surety prior to 30th September 2016.

Note: This modification is contingent upon implementation of UNC Modification 0582.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.	Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	Not applicable

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	None
e) 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.	None

f) Promotion of efficiency in the implementation and administration of the Code.	Positive
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

This Modification furthers relevant objective f) Promotion of efficiency in the implementation and administration of the Code because it ensures that a Shipper User's VAR is calculated correctly such that the risk to the industry of a breach of its CCL by a defaulting Shipper User is minimised.

5 Implementation

Given that self-governance procedures are proposed, implementation could be sixteen Business Days following a Modification Panel decision to implement, subject to no Appeal being raised.

6 Impacts

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

It is not expected there would be any material impact on the SCR or any other significant industry change project.

7 Legal Text

Text Commentary

To be provided

Text

[Draft] legal text

TRANSITION DOCUMENT, PART IIB [1]

Add new paragraph 14 to read as follows:

14 Credit

14.1 For the purposes of giving effect to the provision of TPD Section V3 of the New Transporters Network Code in respect of the First Day and each later Day in the calendar month in which the First Days falls ("**relevant day**"), a User's Value at Risk for each relevant day shall be determined as the sum of the amounts invoiced under the:

(a) LDZ Capacity Invoice;

(b) Commodity Invoice in respect of:

[1] All the current text in TD Part IIB will be deleted and replaced under Modification 0582.

(i) LDZ Commodity Charges;

(ii) Customer Charges;

(iii) Supply Point Ratchet Charges – LDZ Capacity Charges;

(c) Reconciliation Invoice in respect of:

(i) Reconciliation Clearing Charges for LDZ Supply Points;

(ii) Reconciliation Transportation Adjustment Charges in respect of LDZ Commodity Charges and Customer Charges;

(iii) [User Aggregate Reconciliation Charges];

(iv) [User Aggregate Transportation Charge Adjustments in respect of LDZ Commodity Charges and Customer Charges];

(d) [Small Value Invoice in respect of charges referred to in paragraphs (a), (b) or (c)].

in each case in the Invoice Documents submitted by National Grid to the User during August 2016.

[1] All the current text in TD Part IIB will be deleted and replaced under Modification 0582.

8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should be subject to self-governance; and
- Progress to Workgroup assessment