
















Stage 01: Modification		At what stage is this document in the process?
<h1>0587:</h1> <h2>Seasonal Energy Balancing Credit Cover</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>This modification proposes to amend the Energy Balancing Credit Rules so that a User's credit cover, which is currently set based on the maximum requirement in the past 12 months, is only set based on months in the same season as the current one</p>		
	The Proposer recommends that this modification should be assessed by a Workgroup	
	High Impact: Shippers	
	Medium Impact: Xoserve	
	Low Impact: Other parties	

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6	Impacts	7	 0845 4379406
7	Legal Text	7	Transporter: <b>National Grid NTS</b>
8	Recommendation	7	 <a href="mailto:Gareth.Davies5@nationalgrid.com">Gareth.Davies5@nationalgrid.com</a>
<b>About this document:</b>			 01926 654850
This modification will be presented by the proposer to the panel on 16 June 2016.			Systems Provider: <b>Xoserve</b>
The panel will consider the proposer's recommendation and agree whether this modification should be referred to a workgroup for assessment.			 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
The Proposer recommends the following timetable:			 telephone
Initial consideration by Workgroup	07 July 2016		Additional contacts: <b>Paul Bedford</b>
Workgroup Report presented to Panel	15 September 2016		 <a href="mailto:paul.bedford@opusenergy.com">paul.bedford@opusenergy.com</a>
Draft Modification Report issued for consultation	15 September 2016		 01604 673256
Consultation Close-out for representations	06 October 2016		
Final Modification Report available for Panel	10 October 2016		
UNC Modification Panel decision	20 October 2016		

## 1 Summary

### Is this a Self-Governance Modification?

This proposal is not suitable for self-governance procedures because it could have a material positive impact on competition because it would set a shipper's credit cover at a level equivalent to the seasonal risk profile, reducing their cost of credit and benefitting competition.

### Is this a Fast Track Self-Governance Modification?

Fast-Track procedures do not apply as it is not a housekeeping matter.

### Why Change?

Shippers are currently obliged to lodge credit cover in relation to their peak indebtedness for the preceding 12 months. The gas system, and most users of it, has significantly higher volumes, and therefore potential imbalance bills, in winter months. This means the collateral lodged by most shippers outside of winter months is vastly in excess of what is needed to cover credit risk exposures during this period.

### Solution

Adjust the rules so that they look back over the previous 12 months within the same season (summer and winter) when calculating the current credit requirement. This would create a separate profile for exposure during the winter and summer period in order to align credit cover more appropriately to actual credit exposure.

The existing restrictions which prevent a user from withdrawing collateral to below a tolerance based on their current indebtedness and cash call limit would remain, providing sufficient protection against under-collateralisation

### Relevant Objectives

This modification is positive against objective d) Securing of effective competition between shippers as, currently, different classes of shippers are differently impacted by the defect, with those who operate in sectors with flatter load profiles inherently less impacted than those that operate in sectors with peakier load profiles.

### Implementation

No implementation date is proposed. If possible, the modification should be implemented by May 2017 to enable users to remove disproportionate cover in summer 2017. If not, then as soon as possible after that.

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

No, the provision of credit cover does not impact either the Switching SCR or the delivery of central systems.

## 2 Why Change?

Cash call limits are currently set by clause 2.1c of the Energy Balancing Credit Rules to be 75% utilisation of peak indebtedness over the last 12 months.

Practically, this will be determined for most users by their indebtedness during the winter, as at this point their volumes will be higher and therefore the same imbalance percentage will have a much higher materiality in pounds.

The peak winter usage for a band 1 (domestic and small business sites with an AQ of under 73,200 kWhs) profile is 238% higher than the peak summer usage over the 45-75 day period included in the credit cover calculation, using the EUC code of EA:E1501B as an example and according to the definitions of summer / winter set out below. This excludes weather, which is likely to increase the margin. The credit lodged based on a maximum winter value is therefore vastly in excess of the actual exposure that most shippers incur outside of peak periods.

We can consider a rough example for a nominal shipper with 100,000 band 1 MPRNs with an average AQ of 10,000 kWhs. If it maintains its indebtedness at 70% of its collateral, is 5% short at a System Average Price of 1.2 p/kWh which it pays on the balancing invoice due date, its credit cover requirement will be a maximum of £319k in winter and £134k in summer, so £185k of excess collateral (see figure 1 in annex 1 for analysis) Again, this calculation excludes the effect of weather which is likely to increase this gap.

This arrangement leaves most shippers required to lodge an inappropriately high level of cover outside of winter months. It also compares unfavourably with the balancing credit cover arrangements in electricity where a shipper wishing to withdraw funds is only restricted by the last 10 days' indebtedness (see BSC section M, clause 2.3).

Feedback from the Energy Balancing Credit Committee has led this modification away from a more direct copy of the Elexon arrangements as they felt the ability for Users to remove cover this regularly would be administratively burdensome both for National Grid and for shippers who relied on a Letter of Credit to provide security.

If the change is not made then this overcollateralization will remain, negatively impacting competition. This modification impacts most shippers, however, shippers that mostly supply larger customers with very flat profiles will be less impacted and shippers with a higher concentration of peakier band 1 sites will be more impacted.

### 3 Solution

This modification is made under the framework of UNC TPD section X clauses 2.3.4 and 2.3.5, 2.2.2 and 2.2.3 which currently govern the release of security. 2.3.5, 2.2.2 and 2.2.3 are quoted below for ease of reference.

2.3.5 The requirement is that at the date 2 Business Days before the date of such release or reduction the amount of the User's Outstanding Relevant Balancing Indebtedness does not exceed 90% of the lesser of:

- (a) the amount of the User's Cash Call Limit; and
- (b) the amount of the User's revised Secured Credit Limit established (in accordance with the Energy Balancing Credit Rules and paragraph 2.2.2) on the basis of the reduced or released Security.

2.2.2 For each User the "**Secured Credit Limit**" shall be the amount determined under paragraph 2.2.3.

2.2.3 The amount referred to in paragraph 2.2.2 is the amount for the time being of the Security the User has provided.

For the avoidance of doubt this modification does not propose to make any changes which would negate the effect of UNC TPD section X clauses 2.2.2 and 2.3.5 (a), which prevents a User from withdrawing collateral to below a tolerance based on their current indebtedness and cash call limit. This means that Users would still always be required to have adequate security to cover their indebtedness at a given point in time and therefore this proposal would not give rise to a situation in which a given shipper is under securitised and would continue to provide an appropriate level of protection to the shipper community.

It is proposed to amend Section 2.1c of the Energy Balancing Credit Rules so that restrictions on Users from withdrawing funds are only based on values in the last 12 months and that occurred in the current season (winter or summer)

More specifically:

- Winter = Between the day after the payment due date of the November Balancing invoice and the payment due date of the May balancing invoice
- Summer = Between the day after the payment due date of the May balancing invoice and the payment due date of the November balancing invoice
- For 2.1c a shipper's cash call limit is set at 75% utilisation of peak indebtedness over the last rolling 12 months, but only with reference to dates which fall into the same season

These boundaries are set back from the months that would fall into winter / summer consumption profiles. This is because the credit cover calculation looks back between one and a half and two and a half months. Therefore on the date of payment of the May balancing invoice a user's indebtedness will cover the period from the 1<sup>st</sup> March to the current date. Whereas on the following day it will cover the period from the 1<sup>st</sup> April to the current date

So for example, on the 1<sup>st</sup> April 2016 (winter) a shipper's peak indebtedness would be the maximum value within the date ranges of 16<sup>th</sup> November 2015 to 1<sup>st</sup> April 2016 and 2<sup>nd</sup> April 2015 to 15<sup>th</sup> May 2015.

And on the 15<sup>th</sup> July 2016 (summer) a shipper's peak indebtedness would be the maximum value within the date ranges of 16<sup>th</sup> May to 15<sup>th</sup> July 2016 and 16<sup>th</sup> July 2015 to 15<sup>th</sup> November 2015.

Both of these examples assume payment due dates of balancing invoices falling on the 15<sup>th</sup> of the month

This method has the advantages that it is extremely simple to administer, with only a small amount of extra time required from Xoserve to process the additional changes to shippers credit cover balances, this will need to be recovered in some way but we would expect the benefits of this modification to outweigh the increase in cost. It also solves the majority of the current defect in the code.

One issue with this solution that has been considered is that by removing part of the reference period which is nearer to the current date the accuracy of the calculation could be reduced for shippers that are rapidly growing or shrinking. For most shippers this is an existing issue given that their recent peaks are very likely to fall in winter periods in any case. This may cause more of an issue for daily metered shippers whose requirements are less seasonal. However, the existing requirements for shippers to maintain adequate collateral for their current indebtedness will continue to protect against under collateralisation of affected shippers

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	It is not anticipated that a User Pays service would be created or amended by implementation of this modification and it is not, therefore, currently classified as a User Pays Modification. This will be confirmed by the Workgroup.
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.	<i>Tbc</i>
Proposed charge(s) for application of User Pays charges to shippers.	<i>Tbc</i>
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	<i>Tbc</i>

## 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.	Positive
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.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of	None

This modification is positive against objective d) Securing of effective competition, because it enables costs of security to be more risk-reflective, which will be particularly relevant at times of lower usage. The corresponding reduction in operating costs for affected shippers will ultimately further competition between shippers. Furthermore, the current defect has a varying level of impact on different classes of shipper: shippers that mostly supply larger customers with very flat profiles are currently less impacted and shippers with a higher concentration of peakier band 1 sites are currently more impacted.

This modification does not increase risk of credit default as the gas industry will still be protected from avoidable financial loss. The collateral required will still be sufficient to cover the user's exposure if they default at any given time.

## 5 Implementation

No implementation date has been set.

The proposer notes that it would be advantageous for this modification to be ready for implementation for May 2017; this would enable users to reduce their credit cover for summer 2017. If this proves impossible then it should be implemented as soon as possible after this point.

## 6 Impacts

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

There are no impacts on either the Switching SCR or any central systems that we are aware of.

## 7 Legal Text

### **Text Commentary**

A plain-English commentary will be provided by National Grid NTS in due course.

### **Text**

Legal Text will be provided by National Grid NTS.

## 8 Recommendation

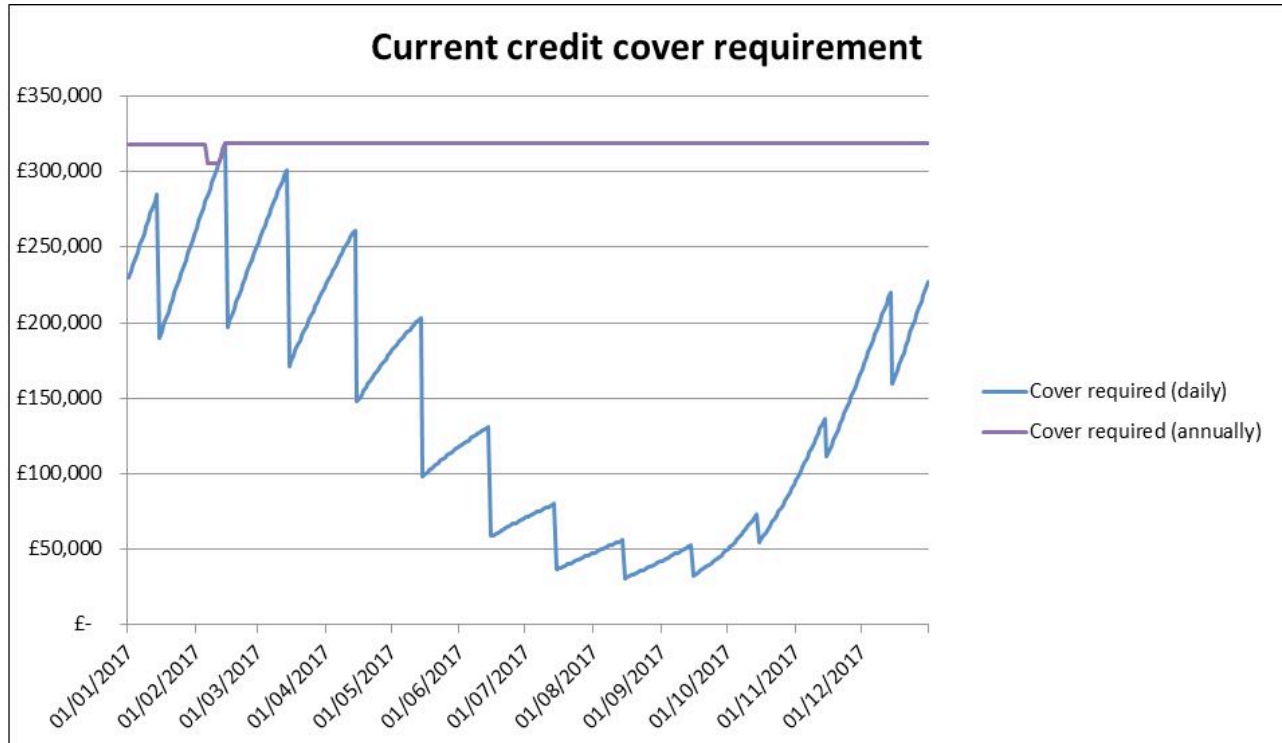
The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance; and
- Progress to Workgroup assessment.

## 9 Annex 1 - Diagrams

These diagrams assume a nominal shipper with 100,000 band 1 MPRNs with an average AQ of 10,000 kWhs. We assume that this shipper maintains its indebtedness at 70% of its collateral, is 5% short at a System Average Price of 1.2 p/KWh

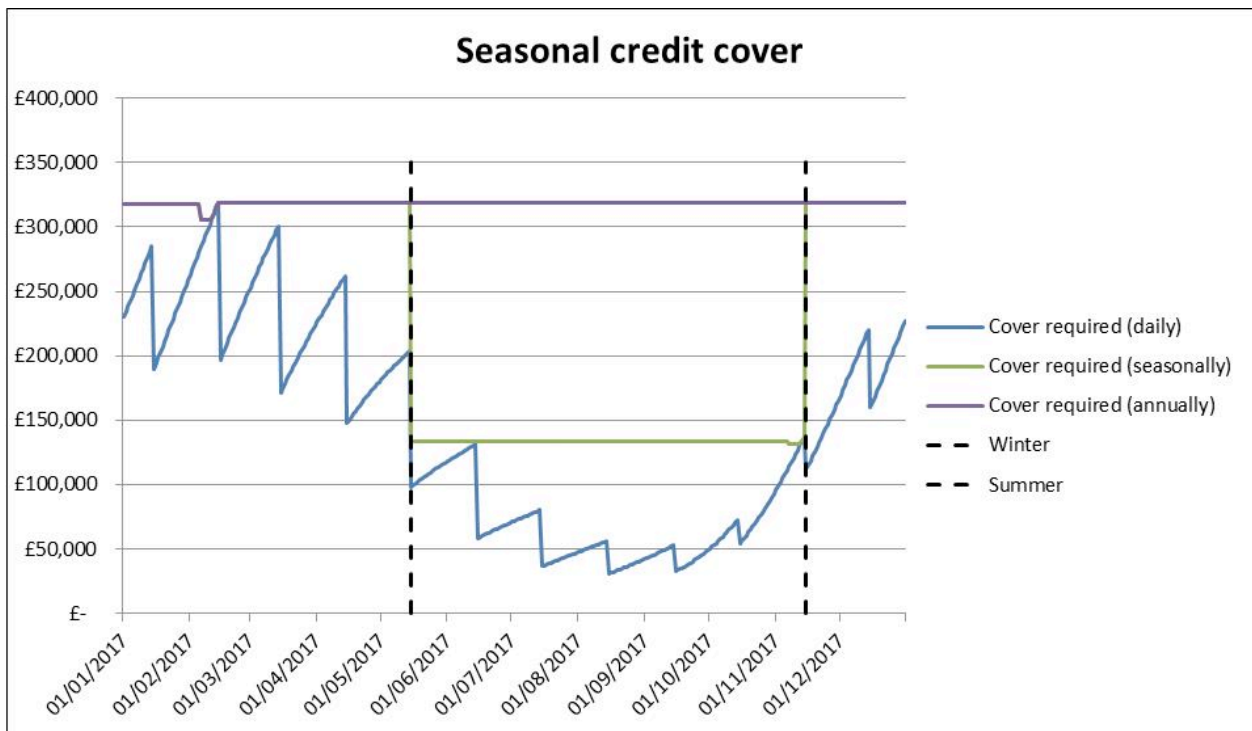
**Figure 1: Current arrangements**



This shows the excess cover that some shippers are currently required to lodge in summer months



**Figure 2: Proposed Solution**



This shows that the largest part of the current error has been removed by a simple change. It also shows that the cover lodged must always still remain above a shipper's requirement.