

CODE MODIFICATION PROPOSAL No. 0127
"Introduction of a DN Pensions Deficit Charge on DNO Users"
Version 1.0

Date: 13/12/2006

Proposed Implementation Date: 01/04/2007

Urgency: Non-Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

National Grid NTS seeks this Modification Proposal to proceed direct to consultation in accordance with Section 7.3 of the modification procedures in the UNC.

Nature and Purpose of Proposal (including consequence of non implementation)

Ofgem has proposed in its Transmission Price Control Review (TPCR) final proposals (Apr 2007 – Mar 2012) that an allowance for the National Grid UK Pension Scheme deficit is included in the maximum NTS transportation owner revenue (TOMR). Ofgem has proposed that the most practical solution would be for National Grid NTS to recover the allowance for the deficit costs from DNO Users by the introduction of a new DN Pensions Deficit Charge. This would be levied on DNO Users with effect from the start of the next Transmission Price Control, if Ofgem's final proposals are accepted by National Grid NTS.

National Grid NTS has recently raised a Pricing Consultation Paper (NTS GCM02) that proposes the introduction of a new transportation charge, known as a DN Pensions Deficit Charge, which would be levied on DNO Users on a monthly basis from 1 April 2007. It is therefore proposed within this UNC Modification Proposal that:

- the proposed new charge type ("DN Pensions Deficit Charge") is defined as a Transportation Charge within the UNC;
- the amount of the DN Pensions Deficit Charge is as defined with National Grid NTS's Transportation Statement;
- the DN Pensions Deficit Charge will be invoiced in accordance with Section S; and
- credit provisions (contained in TPD Sections V) are applied, where relevant, for DNO Users in respect of the DN Pensions Deficit Charge.

In raising this Modification Proposal at this stage, National Grid NTS does not imply acceptance of Ofgem's final proposals for the TPCR. However, this Proposal would allow implementation of the proposed charge in a timely manner after the TPCR has been concluded.

Implementation of the Proposal would thus enable implementation of charges that have been proposed within NTS GCM02 subject to the Authority decision. It is intended that these proposed charges would become effective from 1 April 2007, although the precise timing would be subject to agreement of Ofgem's final TPCR proposals.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

Implementation would in the Proposer's view allow implementation of the proposed DN Pensions Deficit Charge, subject to the Authority decision, and avoid inconsistency with the Gas Transmission Transportation Charging Methodology Statement. Implementation of this Proposal would thus further the efficient discharge of National Grid NTS's obligations under its Gas Transporter Licence and thus better facilitate the achievement of Standard Special Condition A11.1 (c).

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

a. Proposed implementation timetable

b. Proposed legal text

TPD Section B

Amend paragraph 1.7.1 to read as follows:

“1.7.1 For the purposes of the Code:

- (a) "**Transportation Charges**" are charges (other than Energy Balancing Charges or Storage Charges) payable by a User in respect of a transportation arrangement under the Code, and (subject to paragraph 1.7.8) comprise Capacity Charges, Commodity Charges, Customer Charges, and CSEP Charges and payable by a DNO User in respect of DN Pensions Deficit Charges;
- (b) “**Metering Charges**” “

Amend paragraph 1.12 to read as follows:

“1.12 In this Section B references to Users, except in paragraphs 1.2.1, 1.2.5, 3.9, 6 and 7, exclude DNO Users.”

Insert a new paragraph 7 as follows:

7. DN Pensions Deficit Charge

7.1 DNO Users shall pay National Grid NTS a transportation charge (the “DN Pensions Deficit Charge”) in respect of pension deficits. The amount of such DN Pensions Deficit Charge shall be determined in accordance with the Transportation Statement of National

Grid NTS. Such DN Pensions Deficit Charges shall be invoiced and payable in accordance with Section S.”

TPD Section V

Amend paragraph 3.1.5 to read as follows:

“3.1.5 In this paragraph 3 references to:

- (a) Users ~~excludes~~ includes DNO Users;
- (b) National Grid NTS and National Grid plc as DN Operator shall be construed as a single reference to a Transporter.”

c. Advantages of the Proposal

National Grid NTS believes that this Proposal, if implemented, would provide for the implementation of the proposed DN Pensions Deficit Charge which has been proposed within NTS GCM02, and would ensure alignment between the UNC and the (amended) Gas Transmission Transportation Charging Methodology Statement, subject to decision from the Authority, in respect of DN Pensions Deficit Charges.

d. Disadvantages of the Proposal

National Grid NTS is unaware of any disadvantages of the Proposal.

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

No such implications are envisaged.

f. The implication for Transporters and each Transporter of implementing the Modification Proposal, including

i. implications for operation of the System

Implementation is not expected to affect the operation of the System.

ii. development and capital cost and operating cost implications

Any costs associated with changes to the billing systems are expected to be minimal.

iii. extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs

Any costs associated with system development and operating processes would be covered under the internal cost incentive.

iv. analysis of the consequences (if any) this proposal would have on price regulation

Implementation would ensure alignment between the UNC and the proposed changes to the Gas Transmission Transportation Charging Methodology statement.

g. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Implementation is expected to reduce the level of contractual risk of National Grid NTS by allowing it to charge DNO Users in accordance with its Gas Transmission Transportation Charging Methodology Statement.

h. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

As the DN Pensions Deficit Charge would be invoiced by offline systems, any systems changes would not affect the core UK Link System.

i. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

No such implications are envisaged.

Code Concerned, sections and paragraphs

UNC TPD Section B 1.12 & 7 ; Section V3

Proposer's Representative

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Proposer

Paul Roberts (National Grid NTS)

Signature

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