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Our Ref: AHT/070608 0143 response

Dear Julian,

UNC Modification Proposal 0143: 'Reduction of lapse periods in respect of Failure Notices issued in respect of Energy Balancing Credit'

Thank you for your invitation seeking representation with respect to the above Modification Proposal.

National Grid NTS (NG NTS) supports the implementation of Modification Proposal 0143.

As stated by the proposer, the community has become concerned over the timeliness of the Energy Balancing Credit Committee's (EBCC) ability to take Recovery Steps in order that any financial exposure to the community may be kept to a minimum.

Over recent years several Modification Proposals have been raised which have sought to address some of the concerns expressed by the community. One of the most recent was Modification Proposal 0102: "Removal of Failure Notice in respect of Energy Balancing Credit", which sought to remove the Failure Notices associated with Energy Balancing Credit. UNC0102 sought to reduce the period before recovery actions may be considered by removing the provision of a Failure Notice to the defaulting User. We believe that a key factor that may have influenced Ofgem's decision to reject UNC0102 was the concern that removing the Failure Notices also removed the safeguards through which a defaulting User was made aware that it had infringed the provisions of the UNC and, in turn, limited the opportunity for the defaulting User to take the necessary steps to avoid termination.

We note that in its decision letter for UNC0102, Ofgem highlighted that it was sympathetic to the concept of "*acceleration of the timetable before termination*" and that a Proposal which "*seeks to deliver this whilst providing appropriate safeguards to users may present a more persuasive case for approval.*"

In response to Ofgem's UNC0102 decision, the proposer raised UNC0143 which proposes, not to remove the Failure Notices, but to reduce the expiration time periods for such Failure Notices associated with Energy Balancing Credit to one business day.

NG NTS notes that as a result of the implementation of Modification Proposal 0737 – 'Failure to Pay Cash Call Notice (reduced timescales)', the expiration time period for Failure to Pay Cash Call Notice was reduced from three business days to one business day. NG NTS observes that Proposal UNC0143 seeks to align the expiration time period for the 'Failure to Supply Further Security Notice' and the 'Failure to Pay Energy Balancing Invoices Notice' with those determined for the 'Failure to Pay Cash Call Notice'.

NG NTS believes that, if implemented, UNC0143 may provide consistency in respect of expiration time periods across all Failure Notices associated with Energy Balancing Credit. We consider that, if implemented, this Proposal may strike an appropriate balance between minimising the community's financial exposure associated with User default whilst providing appropriate safeguards in respect of the defaulting User.

NG NTS considers that this Proposal may better facilitate relevant objective SSC A11 1(a), as set out in NG NTS' Gas Transporter Licence, insofar as the Proposal seeks to introduce improved procedures and best practices through which the level of Energy Balancing financial risk, relating to User default, may be minimised. Additionally NG NTS believes that reducing the impact of such avoidable financial risk on the community facilitates a regime which is conducive to the promotion of greater competition as defined under SSC A11 1(d) of the Gas Transporter Licence.

NG NTS agrees with the proposer that the proposed changes demonstrate continued development of Energy Balancing Credit Rules objectives, namely to *"develop and maintain a Framework for limiting the risk of financial loss to the shipper community resulting from the operation of the Energy Balancing regime"*.

Please let me know if you require any further information to enable preparation of the Final Modification Report.

Yours sincerely

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