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**Modification Proposal 0233
'Changes to Outstanding Energy Balancing Indebtedness Calculation'**

**Modification Proposal 0234
'To correct Drafting Inconsistencies between Sections X and V of the UNC in Respect of User Default and Termination'**

**Modification Proposal 0235
'Recovery of Debt and Smearing of Revenue via Energy Balancing Neutrality'**

Dear John,

Thank you for your invitation seeking representations with respect to the above Modification Proposals.

National Grid Transmission supports the intent of all three of these Modification Proposals.

National Grid NTS has taken the opportunity to submit a consolidated response to all three Proposals.

We understand that these Proposals were raised as a result of the Energy Balancing Credit Committee (EBCC) review of the unprecedented events in the financial markets over the past few months and identified potential areas where existing controls could be amended in pursuit of minimising the shipper community's exposure to avoidable financial loss resulting from a User's default. We believe that the intents of these Modification Proposals go some way in reducing the risk of exposure to Users from costs smeared through the Energy Balancing Neutrality mechanism as a result of User Default.

We have provided the following individual responses in respect of each of the Modification Proposals:

Modification Proposal 0233 - 'Changes to Outstanding Energy Balancing Indebtedness Calculation'

This Proposal seeks to extend Section X2.5 provisions to allow National Grid NTS to process an adjustment or replace the values used in accordance with the formula set out in this section of the UNC for a User's Anticipated Balancing Indebtedness, where the User provides, or National Grid NTS has, more 'up-to-date data' than that initially used in the formula.

Although we fully support the intent of this Modification Proposal we are concerned that as drafted the Proposal does not provide sufficient clarity on what this 'up-to-date data' will be and how it will be used to amend or replace the formula set out in Section X 2.5. As such we are somewhat unclear as to how the intent of the proposal is to be applied and we are therefore working with the Transmission representative on the EBCC in drafting legal text to support of the proposal with the aim of addressing the above issue.

We agree that this Proposal may better anticipate a User's cumulative energy balancing position at close-out on the Day, and as a consequence the EBCC may have the ability to take actions which may reduce the liability faced by the community, should a Defaulting User be terminated for any reason.

We also agree that such an arrangement also provides Users with the ability to provide more 'up-to-date' information for the Relevant Period, which may be used as part of the calculations of a User's Anticipated Balancing Indebtedness, with this being verified by National Grid NTS. We believe that this may reduce the number of unnecessary Cash Call notices being issued.

Modification Proposal 0234 'To correct Drafting Inconsistencies between Sections X and V of the UNC in Respect of User Default and Termination'

We believe that if implemented the changes proposed would provide better consistency across the TPD, in respect of;

- Bringing Section X in-line with Section V; Provisions relating to the timings associated with when a Defaulting User ceases to be a User of the system following the issue of a Termination Notice; and
- Criteria which defines when a User Default has occurred, across both Section X and Section V.

The Proposal seeks to amend Section X2.9.3, X2.10.10 and X3.2.2 such that the Defaulting User may cease to be a User with effect from the date specified in the Termination Notice, bringing Section X in-line with Section V. We agree with the Proposer that there maybe instances where the EBCC may deem it appropriate to determine that the Defaulting User shall cease to be a User of/or in relation to the System(s), with effect from the date that the Termination Notice is given, and therefore will be served prior to the following Gas Day in

order to mitigate the Shipper community's exposure to avoidable financial risk resulting from a User Default.

Modification Proposal 0235

'Recovery of Debt and Smearing of Revenue via Energy Balancing Neutrality'

We understand that the Proposal seeks to amend the Neutrality smear apportionment such that the quantities associated with non-Payment of Energy Balancing Debt accrued by the Defaulting User is smeared over Users' UDQI/O's for the days of the month when the User defaulted, as oppose to prevailing arrangements where such amounts are smeared over the current billing month's UDQI/O's.

Although National Grid NTS does not believe that the benefit of initiating such a change is significant there remains the potential for a small improvement in the appropriate smearing of such costs, as we believe that over the current 2 month process in recovering the debt through the prevailing Neutrality mechanism, Users UDQI/O's may have changed slightly depending on movements in customer account portfolios and changes in the profile of demand. We believe that the principle benefit may be in respect of new entrants to the system and therefore such a change may reduce the barriers to entry.

We note that the Adhoc Neutrality smearing mechanism already facilitates smearing over the apportionment proposed in this Modification; therefore we do not believe there would be any notable additional costs associated with this change and we offer support to the Proposal on this basis.

In addition, we recall that during the drafting of legal text for Modification Proposal 0171 – 'User SP Aggregate Reconciliation Proportion to Incorporate Historical AQ Proportions', which proposed that Reconciliation values were apportioned over AQ values relevant to the day that the reconciliation relates to, as opposed to prevailing AQs, it was found that drafting of the required legal text very complex. We believe that the drafting requirements for this Proposal are very similar in nature to the complexities of Modification Proposal 0171, as well as impacting on a very complex section of Code, TPD Section F4.5 – 'Adjustment Neutrality Amounts', therefore we believe that care is required to ensure that unintended impacts on the prevailing legal text for Neutrality do not arise. As a result we are seeking further discussion with the Proposer and/or the members of the EBCC during the production of legal text to ensure that such text accurately reflects the proposed intent of the Proposal.

2) Extent to which implementation of this Modification proposal would better facilitate the achievement (for the purposes of each Transporters Licence) of the Relevant Objectives:

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs

(a) to (c) the 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;

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We believe that providing National Grid NTS with the discretion in relation to the application of the formula, to calculate a User's cumulative energy balancing position, and any consequential liabilities, may aid the EBCC in their aim to reduce the exposure of Users to the debts of a Defaulting User. We believe that, as such, this Proposal, if implemented, may reduce the level of exposure to the Shipper community resultant from Defaulting Users, and therefore may secure effective competition by minimising any potential costs to the community. However, as detailed above, we need to further understand the effects of the Proposal on the application of the formula set out in section X2.5.1 (c) to be fully assured of the beneficial effects.

We agree with the proposer that providing a means of appeal to a User, based on more up-to-date information may reduce that User's exposure to, *'unnecessary Cash Call and, in the extreme, Termination'*. We believe that this may provide an improvement to the Relevant Objective by reducing any potential discriminatory barriers which may affect the smaller Users.

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We agree with the Proposer's statement that implementation of this Modification Proposal may facilitate effective competition by, *"reducing Users' exposure to unnecessary risk. Whilst not directly enhancing competition, it would help secure effective competition by minimising any potential costs to all shippers and suppliers from a User Default."*

Modification Proposal 0235

'Recovery of Debt and Smearing of Revenue via Energy Balancing Neutrality'

As previously stated, although National Grid NTS believes that the benefit of initiating such a change is likely to be only a small improvement in the appropriate smearing of costs; we agree with the Proposer that implementation of this Proposal may mitigate barriers to entry, which may in turn secure more effective competition.

Standard Special Condition A11.1 (f) so far as is consistent with sub- paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or uniform network code;

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We believe that implementation of the proposed amendments may improve the efficient administration of the Network Code through the provision of greater clarity and consistency within the code facilitating more effective and clear decision making for the EBCC and Transporters.

6) The development implications and other implications for the UK Link System of the Transporters, related computer systems of each Transporter and related computer systems of Users

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We are concerned that it is unclear whether the Proposal is conditional on the implementation of systems changes to support an 'automated' process to facilitate this change or whether the Proposal may be implemented with the prevailing manual processes in place.

The Proposer suggests that the prevailing manual arrangements will carry no impact on UK Link system, however they also state that '*Some implications for the UK Link System and related computer systems will result when National Grid NTS automate the resulting processes.*'

We note that the Proposal does not state what costs and system implications such automated processes would entail and indeed how such cost would be funded. As with the production of legal text, we will be seeking to work with the Proposer to further understand the implications of the Proposal and the associated system charges required.

Additionally in the absence of a clear view as to how the intent of the proposal is to be incorporated with the mechanism described in Section X2.5, and a clear view of how frequently such proposed arrangements are intended to be utilised we are unable at this time to take a balanced view, in terms of cost and benefit of putting in place the automated processed proposed in the Modification as apposed to relying on a manual process.

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

Yours sincerely

Claire Thorneywork