CODE MODIFICATION PROPOSAL No 0246A
Quarterly NTS Entry Capacity User Commitment
Version 1.0

Date: 23/04/2009

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

Review Group 0221 "Review of Entry Capacity and the Appropriate Allocation of Financial Risk" was raised in response to a very specific issue, namely that a Shipper could secure capacity at a single entry point through the QSEC auctions resulting in a significant increase in NGG's allowed revenue with no exposure if the project failed. National Grid NTS raised Modification Proposal 0246 "Quarterly NTS Entry Capacity User Commitment" which was their interpretation of the outcome of this Review Group.

EDF Energy believes that this has highlighted a failure in the price control and NGG's Licence that needs to be addressed. In particular as capacity has been allocated through the QSEC auction NGG's allowed revenue has been increased by £100m over 5 years even though no investment has been undertaken. This £100m will have to be funded by the industry and customers, and if no costs have been incurred by NGG then this will represent a significant increase in their bottom line. Whilst outside of the scope of this proposal we believe that this is a significant issue that needs to be addressed by Ofgem to protect the interests of consumers.

EDF Energy believes that the purpose of 0246 should be to discourage Shippers placing speculative bids with no exposure if the project fails to be delivered. If this objective is achieved then NGG should not have to undertake investment to support a project that is unlikely to be delivered. However for clarity we also do not believe that securing credit should provide NGG with a carte blanche for increasing allowed revenue.

It is important to note that the role of 221 was to attempt to protect the industry from the risk of project failure – the risk that that capacity will be allocated to support a project which fails to be delivered – with the risk that the associated capacity could not be utilised by another party as it was project specific therefore leading to stranded costs. This is materially different to company failure where it is likely that the capacity would be utilised by the party acquiring the assets of the distressed party, i.e. leading to no stranded costs, e.g. see TXU, Dynergy and Enron.

Review Group 0221 identified the following two issues:

1. The current UNC requirements, for Quarterly NTS Entry Capacity (QSEC), are that a User puts in place credit arrangements to provide security for a rolling twelve month period. Thus, the obligation commences twelve months prior to the date on which the entry capacity bought in a QSEC auction becomes effective. If insufficient credit is put in place, all QSEC rights (across all ASEPs) "for the relevant quarters" lapse. Notwithstanding, National Grid NTS's obligation to make capacity available for up to the next four quarters, a User at a single entry point would effectively be able to keep deferring capacity commitments up to twelve months prior to the event.

2. In addition to the above, the Review Group considers that there is currently an inappropriate length of time between a User committing to buy long term NTS Entry Capacity and the User financially underpinning this commitment. This could lead to a situation where, following User default or deferral of capacity commitment, the revenue associated with this User's capacity commitment will be recovered through changes to general NTS Transportation Charges. National Grid NTS and Review Group attendees consider that the timing of the capacity commitment and the associated financial underpinning should be more closely aligned in order to minimise the amount of associated revenues being recovered through general, i.e. non User specific, NTS Transportation Charges.

However National Grid NTS' Modification Proposal goes further and proposes that the only acceptable credit tools are a Letter of Credit (LoC) or a Deposit Deed, provided that these were provided by a financial institution with an A grade rating from Moody's. In effect this would mean that a Parent Company Guarantee (PCG) from a company with a rating higher than A would be less credit worthy than a LoC from a bank with an A rating. In addition some Shippers are owned by banks and so a PCG would again not be acceptable but a LoC from the same institution would be. EDF Energy does not believe that this is appropriate.

Credit requirements, and costs, are by their very nature specific to each individual company. Significant work is undertaken by credit rating companies to ascertain the credit worthiness of a company and attribute a credit rating to it which will be dependent on issues such as:

- capital gearing
- payment history
- Quality of risk management
- General business management
- Geographical risk
- Jurisdictional risk
- Regulatory risk

This credit rating will then be used by the financial institutions when charging for a LoC. Therefore the requirement to lodge a LoC will favour institutions with a higher credit rating who can secure it at a lower cost

(roughly 1%) compared to a company with no credit rating who may have to lodge cash.

EDF Energy believes that this blanket approach to credit tools fails to take into account the company specific nature of credit and will merely create costs to consumers. We are therefore proposing that the changes to the acceptable credit tools contained within NGG's proposal are removed and the current credit tools detailed within UNC Section remain in place.

This is in line with the recommendation of the Review Group that a Users' credit requirements are decreased in line with their credit rating. This was removed by NGG from Modification Proposal 0246 at a late stage because they believed that it was undue discrimination. However EDF Energy believes that provided the credit requirements are applied in a transparent manner based on the company's credit rating then we do not believe that this would be undue discrimination. Conversely forcing a company with an A grade rating or higher to provide the same credit as a company with no credit rating could be viewed as undue discrimination as this fails to take into account the difference between the two companies. However given that NGG's original proposal relied solely on credit rating and failed to take into account over factors such as payment history we believe that the current credit tools should be retained as they are more sophisticated than NGG's proposal.

Modification Proposal

The following part of the Modification Proposal relates to addressing issue one:

Current security provisions set out in B2.2.15 of the UNC TPD mean that National Grid NTS looks at the sum of the User's current Relevant Code Indebtedness and the following twelve months liability for capacity charges associated with Quarterly NTS Entry Capacity, as acquired in the auctions for Quarterly NTS Entry Capacity (QSEC) (referred to below as QSEC auctions).

If this aggregated amount exceeds 85% of the User's Code Credit Limit, then National Grid NTS will notify the User. The User can either increase its Code Credit Limit by providing additional security or be in the position where the User's Registered Quarterly NTS Entry Capacity for each of the relevant calendar quarters will lapse and the User will cease to be treated as holding the Registered Quarterly NTS Entry Capacity.

These provisions define the requirement for National Grid NTS to be provided with security for near term entry capacity, i.e. the next 12 months capacity charges that form part of the transportation invoicing arrangements and it is proposed that this provision in UNC TPD Section B2.2.15 predominantly remain in place.

However, we propose to amend UNC TPD Section B 2.2.16:

- to remove the ability for a User to defer the provision of the security required under UNC TPD Section B2.2.15 and therefore, for this User's Registered Quarterly NTS Entry Capacity to lapse;

- to clarify that the User will continue to be treated as holding the relevant NTS Entry Capacity and will be subsequently invoiced for that capacity. Any failure to pay the above invoices will be treated in the same way as any other transportation debt; and

- such that National Grid NTS will reject any further QSEC capacity bids at any ASEP submitted by the User until the above security has been provided by the User.

It is anticipated that this change will enhance current incentives for Users to submit the required security as per UNC TPD Section B2.2.15.

The following part of the Modification Proposal relates to addressing issue two:

Implementation

Within 28 days of the implementation of this proposal, it is proposed that Users will be required to put in place, and subsequently keep in place, sufficient security to underpin their existing Quarterly NTS Entry Capacity (QSEC) holding. The level of security will be the amount determined by the entry capacity risk assessment i.e., the User's User Security Value (USV). Full details of the entry capacity risk assessment and the USV are explained later in this proposal.

For clarity it is proposed that the security tools detailed within TPD V 3.4.5 remain acceptable security tools.

It is also proposed that 14 days prior to participating in any subsequent auction process for Quarterly NTS Entry Capacity (QSEC), Users will be required to provide sufficient security to cover their anticipated additional capacity holding resulting from their participation in the auction. Such security amount to be determined through the application of the entry capacity risk assessment referred to above to the User's anticipated additional capacity holdings.

National Grid currently invites Users to make applications for Quarterly NTS Entry Capacity for a period of ten consecutive Business Days (unless stability has been reached) during 01 September and 30 September in a Capacity Year. Users submit capacity bids between 08:00 and 17:00 hours on an invitation date and auction information is sent to Users by 20:00 each day.

It is proposed that following closure of each QSEC bid window National Grid NTS will reject all capacity bids submitted by a User in that window where that User's revised User's Security Value reflecting both their existing holding and "anticipated" capacity allocation that would have

resulted had that bid window been the final bid window, exceeds the User's prevailing security. This will ensure that a "defaulting" User's bids do not effect the reporting during the auction and are also disregarded prior to determining whether or not the auction has reached stability.

National Grid NTS also proposes that following each QSEC bid window closure that a full business day is added between the closure of this window and the opening of the next to carry out the aforementioned validation of the auction bids. It is therefore proposed that the ten consecutive Business Days is changed to eight bid windows each punctuated with one business day between the windows and that the current auction information is sent to Users by 20:00 on the business day after the bid window; to which the information relates: closes. Previous QSEC auctions have been analysed and National Grid NTS has found that stability has always been reached by the seventh consecutive day if not before. Therefore reducing the number of bid windows to eight would not have changed any previous auction and is therefore unlikely to have a material effect going forward.

To be clear, this proposal does not preclude a User providing additional security during the annual invitation period. The security provisions proposed in this proposal are in addition to those currently within UNC TPD Section V.

Entry Capacity Risk Assessment

As detailed above, all Users with QSEC NTS Entry Capacity holdings will be required to provide appropriate security to support their QSEC capacity holding. This security will be known as the User Security Value and will be based on a risk assessment of the Allocated Capacity Values (ACV). Each User's required User Security Value (USV) will be calculated as follows:

USV = ACV + VAT

Where:

VAT = Value Added Tax at the prevailing rate

ACV = that User's allocated QSEC NTS Entry Capacity bids at all ASEPs for all Years Y+2 to Y+16 inclusive multiplied by 0.1.

In order to ensure that its QSEC auction bids are allocated the User will be required, prior to the auction, to derive its post auction ACV, by estimating the (max) value of its successful capacity bids across all auction periods and to add this to the value of its existing capacity holding for Gas Years Y+2 to Y+16 (inclusive).

A number of options for selecting the QSEC NTS Entry Capacity bid years used to derive the ACV were investigated by the Review Group. Each option was discussed in turn and all but the one proposed in this proposal was dismissed as being capable of manipulation by auction parties. The Y+2 to Y+16 option put forward in this proposal was considered by the group as

being the option which best balanced the conflicting aims of capturing the financial impacts of a User's commitments, whilst not unduly disincentivising long term investment signals.

The Review Group sought to further achieve the balance referred to above by reducing the value of the aggregate ACV to a proportion of Y+2 to Y+16, thus ensuring that the overall level of security required is proportionate to the problem and does not unnecessarily discourage Users from giving long term auction signals. It was the view of the attendees of Review Group 0221, which expressed a preference, that this proportion/percentage be 10%.

Long Term Entry Capacity Default Process

It is also proposed that the following actions be classed as "events of User default":

1. the amount determined by the User's USV exceeds the value of the security in place; or

2. the User's supplied security tool (LoC or Deposit deed) has less than 30 days validity remaining; or

3. the credit rating of the financial institution providing the LoC has gone below the minimum credit rating specified in UNC TPD Section V.

If an "event of User default" occurs, a "default process" will be triggered whereby a notice will be issued to the User by National Grid NTS informing the User of the "event of default" and requiring the User to provide the necessary security to cover at least the User's USV within the next 10 Business Days.

In addition, National Grid NTS will aim to lessen the impact of the event of default by rejecting any further applications for QSEC capacity by the User, until the necessary security is put in place.

In the event that the User has not met the conditions of the notice after 10 Business Days, or in the event that the User has been terminated under UNC TPD Section V, then the User's QSEC capacity holding across all ASEPs in Years Y+2 to Y+16 will be cancelled and the User charged a cancellation fee equivalent to the User's security held for the purposes of underwriting the User's holding of NTS Entry Capacity for Years Y+2 to Y+16 inclusive as proposed in this proposal. As a further appropriate sanction, National Grid NTS will also reject any further applications made to acquire System Capacity under Section B or via a System Capacity Trade in which the User is a Transferee User until the following Day after the bids are allocated by National Grid in the next QSEC auction.

Where a User fails to provide or maintain the security required by this proposal the User's prevailing QSEC capacity holding across all ASEPs in

Years Y+2 to Y+16 that has been previously subject to Transfer will be treated as though the User had been terminated under UNC TPD Section B5.4. I.e. the Transferee User may elect to be registered as holding the Capacity and subsequently liable for Capacity Charges in respect of the transferred capacity.

Following application of Section B5.4 any remaining cancelled NTS Entry Capacity will be offered in subsequent capacity auctions and treated as unsold capacity.

It is proposed that any revenues accumulating from the cancellation fee and any new Allocated Capacity Values from the resale or B5.4 process will be combined and compared to the expected revenue. It is anticipated that National Grid NTS will need to consult on the Charging Methodology to define the cancellation fee and consequential recalculation of the existing charges which will be considered as part of the actual revenue assessment.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

This Proposal has been raised as an alternate to Modification Proposal 0246 and so should follow the same route as this proposal.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

User Pays.

NGG has identified that implementation of Modification Proposal 0246 would result in changes to the UK Link system which have not been included as part of NGG's allowed revenue. We therefore believe that this proposal should be Classified as a User Pays Proposal.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

100% Entry Capacity Users.

The benefits of this Modification Proposal will be felt by Shippers as:

- There is a risk that if a User "defaults" or defers their capacity commitment, the allowed revenue associated with this User's capacity commitment will be recovered through changes to general NTS Transportation Charges. This Proposal aims to mitigate the risk

of this type of event. Therefore this proposal benefits all Users which are liable to pay the above charges as it aims to discourage speculative bidding and reduce the Shipper community's exposure to a User failing to pay for their Entry Capacity holdings.

- Gas Transporters are financially neutral to the risks and benefits highlighted in this proposal.

Please note that this assumes that NGG is allowed to recover all of the revenue resulting from incremental entry capacity release even if the User defaults and no investment is incurred.

c) Proposed charge(s) for application of Users Pays charges to Shippers

Costs should be funded by Users in proportion to:

User Pays costs * (User's ACV divided by the sum of all User's ACV)

The ACVs to be used in the above calculation shall be the ACVs applicable on the date of the implementation of this proposal.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

National Grid NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- In respect of Standard Special Condition A11.1 (a), the efficient and economic operation of the pipeline, this Proposal discourages speculative auction bidding, thus reducing the risk of inefficient system investment and provides an incentive for Users to honour entry capacity auction commitments. This in turn will give National Grid NTS and the shipper community greater assurance over the appropriateness of any associated system developments and/or allowed revenue returns.

- In respect of Standard Condition A11.1(c) the efficient discharge of the licensee's obligations under this licence, by providing an incentive on Users to book Quarterly NTS Entry Capacity only when required. This is expected to reduce the potential for providing unnecessary physical NTS capacity.

By requiring Users to underwrite their anticipated allocation of capacity prior to a QSEC auction and subsequently maintain this underwriting this proposal provides an appropriate level of incentive on Users not to bid in such auctions in a speculative manner. By discouraging such speculative bidding this proposal also minimises the risk of speculative bidding influencing the outcome of the auction

process thus reducing the potential for inefficient outcomes.

Any arrangement, such as the current position with the UNC, which maintains the ability for a User's QSEC auction bids to be considered during the auction allocation process and then subsequently provide an opportunity for the User to decline to take up the capacity allocated (by, for example, not subsequently providing the required security to underwrite that allocated capacity), increases the potential for speculative bidding and the associated adverse effects on the efficiency of the auction signals given. Such arrangements are therefore less optimal in terms of both this relevant objective and A11 1 (d).

- In respect of Standard Special Condition A11 1(d), the securing of effective competition, this proposal, whilst extending the credit arrangements, aims to reduce the Shipper community's exposure to a User failing to pay for their Entry Capacity holdings (referred to below as "defaulting"), without introducing a prohibitive cost to Users who may wish to take part in the Entry Capacity auctions. National Grid NTS believe that this proposal ensures that costs and shipper default risks are allocated appropriately across all Users.

As described in the A11 1 (c) section above, arrangements which maintain the ability for a User's QSEC auction bids to be considered during the auction allocation process and then subsequently provide an opportunity for the User to decline to take up the capacity allocated (by, for example, not subsequently providing the required security to underwrite that allocated capacity), increases the potential for speculative bidding. Such a situation increases the potential for a, subsequently "defaulting", User to unduly influence the bidding arrangements of other Users in the QSEC auction and the subsequent capacity allocations. National Grid NTS consider that such arrangements are less optimal than those proposed in this proposal in relation to this relevant objective.

Arrangements / proposals which seek to reduce the current UNC timeframe during which a User can effectively decline to take up the capacity allocated (such as Option 3 discussed within Review Group 0221) would, in National Grid's opinion, be better than current arrangements in relation to the detrimental effects of speculative auction bidding. However the fact, that such proposals would continue to provide the opportunity for a User to decline to take up the capacity allocated, perpetuates the detrimental impacts of speculative bidding and subsequent unwinding of allocations. It also introduces complex questions in relation to the treatment of other Users' allocations at ASEPs where a User has subsequently "defaulted". National Grid NTS therefore considers that such proposals do not facilitate this relevant objective to the same degree as this proposal. Indeed we consider that the detrimental effects described above also outweigh the potential barriers to entry introduced by the requirement to put in place the security proposed prior to the QSEC allocation process commencing.

It should be noted that National Grid NTS considers that there is an implementation risk that could impact on competition between Users, where projects could be delayed or cancelled as a result of the new User Commitment required. Users may also use the opportunity provided by the implementation of this proposal to

withdraw from their current capacity commitments.

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

This proposal seeks to strike an appropriate balance between capturing an efficient level of User commitment and mitigating the shipper community's risk from a User's failure to pay NTS Entry Capacity charges.

During the development of this proposal National Grid NTS has sought to reflect the views of the attendees of the Review Group 0221. These views included the ability to mitigate the shipper community's risk to a single User's default, whilst at the same time not creating an undue barrier to entry or adversely impacting on the amount of capacity purchased through long term auctions and the long term investment singles that these auctions seek to provide.

Using all years between Y+2 and Y+16 to calculate the ACV and reducing it to a proportion of 10% ensures the overall level of security required is proportionate to the problem and does not discourage User's from making long term auction signals. This proposal seeks to reduce the risk to the shipper community of a User failing to pay NTS Entry Capacity charges, by removing the current ability for ASEP User's to allow their capacity to lapse.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

This Proposal seeks to ensure that any investment in the NTS is efficient and economic by requesting an appropriate level of User Commitment, which we believe, should not unduly discourage Users from bidding for unsold baseline and triggering non-obligated or incremental capacity.

b) The development and capital cost and operating cost implications:

A Rough Order of Magnitude (ROM) analysis was provided by xoserve to NGG in February 2009 which indicated that the development and implementation costs related to a full system solution would be in the region of £250K- £500K.

A full Detailed Cost Assessment (DCA) has not yet been conducted by National Grid NTS and xoserve.

It is estimated that a full system solution could take of the order of two years to develop, test and implement, and therefore there will be a period of time during which National Grid and xoserve will use manual procedures to provide the functionality described in this proposal, the costs of which are estimated at circa £10k per annum.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Changes to the UKLINK system resulting from this proposal should be funded via a "User pays" approach in line with Section 2 above.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No such consequences have been identified.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable.

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

An initial estimate of the costs related to a full system solution is in the region of £250K-£500K.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

For those Users participating in the QSEC auctions, the User will probably need to adjust its administrative arrangements to reflect the User Commitment arrangements proposed in this proposal so that it is able to assess its credit requirements and ensure a Deposit Deed or Letter of Credit is in place at all times to match its capacity holdings.

This proposal has implications for single ASEP Users as they will need to provide security and pay for capacity that they have committed to in the QSEC auctions. The requirement to pay will be regardless of whether or not they are in a position to utilise the capacity they have booked.

b) The development and capital cost and operating cost implications

National Grid NTS recognises that there will be cost implications in extending the security arrangements. As a result of the Review Group 0221 discussions we consider that the costs incurred from implementing this proposal are offset by the benefits accrued from mitigating the risk of a User's failure to pay NTS Entry Capacity charges.

The aggregate level of security to be provided by Users as a result of the introduction of this proposal is expected to be in the region of £119.5m (10% of all Allocated Capacity Values (ACV)), which would equate to an

estimated Letter of Credit cost across all Users of around £4m per year This estimate is based on a LoC cost range - 1% LoC face value for AAA User's rising to 7% for User's with no credit rating.

However, Users with poor credit ratings may choose to use a deposit deed as a cheaper option, as the amount deposited is currently subject to bi-annual interest payments equal to Bank of England base rate.

National Grid NTS has estimated the costs of project or User default to be in the region of £20m per year. This is based on events such as the failure of Enron and the recent refusal of planning permission for the Fleetwood storage project. Whilst EDF Energy does not have any information to confirm or rebuke this figure, it appears that it is naive in that it only quantifies the financial value and not the risk of failure.

Following discussion at the April Transmission Workstream as to whether this proposal is an appropriate balance between the introduction of costs and the mitigation of User "default" risk, NGG have updated the proposal to include the analysis below, which they believe helps clarify the potential risk to the Shipper Community.

Review Group 221 considered that there is currently an inappropriate length of time between a User committing to buy long term NTS Entry Capacity and the User financially underpinning this commitment.

Currently 12 Users have a QSEC Capacity holding but do not provide any financial commitment (not required to submit the required security as per UNC TPD Section B2.2.15). These Users do not have a Standard and Poor's credit rating (4 of these Users may have a parent that is Investment Grade Rated). In aggregate these Users hold allocated NTS Entry Capacity to the value of £343m (this equates to 29% of the value of all the QSEC Capacity allocated in years Y+2 to Y+16).

This risk is further illustrated by the fact that:

- Approximately 50% of the baseline Capacity (Y+2 to Y+16) at Bacton is held by 7 of these Users (circa £56m auction bid value).

- 2 of the Users are single ASEP Users (Barrow & Fleetwood) that have an entry capacity holding (£190m combined auction bid value) and have storage projects related to the utilisation of the capacity. The single ASEP User is considered to be a higher risk since current UNC "default" rules rely on the incentive that a User's Capacity holdings at all Entry Points is removed for a period. A single entry point User has no other Capacity holding and therefore this incentive property is ineffective.

Again we would note that whilst NGG has identified the value of the capacity that is at risk they have failed to quantify the likelihood of company failure. These figures would therefore appear to overstate the default risk that the industry is exposed to. However without detailed information on the

companies that hold this capacity EDF Energy is unable to undertake a full risk analysis.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

By reinforcing the obligations on Users to pay capacity charges, the current risk to other Users would be reduced by a whole10%.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No such consequences have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

By introducing appropriate User Commitment for long term entry capacity:

- Users will continue to signal sufficiently far in advance to allow National Grid NTS to make appropriate investment decisions.
- The proposal reduces the shipper community exposure to a User failing to pay its NTS Entry Capacity charges by 10%
- Discourages speculative auction bidding, thus reducing the risk of inefficient system investment and minimising any adverse impact on other Users bidding for capacity at the same ASEP in the same QSEC auction
- Provides an incentive for Users to honour existing and future QSEC auction commitments
- Maintains the use of existing credit tools. Thereby avoiding Users tying up funds in providing additional credit where the risk of failure is minimal. Given the current economic climate the costs of providing credit is very volatile and the impact of tying up funds is significant.
- Minimises the costs to industry.
- Ensures credit requirements and tools are based on the credit rating of the company and so reflect the risk of failure.

It is also anticipated that this proposal will have a minimal impact on the current QSEC auction processes.

Disadvantages

National Grid NTS recognises that there are some disadvantages in relation to this proposal, namely that

- If a User can only lodge LoC or Deposit Deeds then projects could be delayed or cancelled as a result of the new User commitment required.
- Users may use the opportunity provided by the implementation of this proposal to withdraw from their current capacity commitments.
- Users would no longer have the benefit of Registered Quarterly NTS Entry Capacity lapsing in the event that security is not put in place.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

None received

13 Detail of all other representations received and considered by the Proposer

None received

14 Any other matter the Proposer considers needs to be addressed

None

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s)

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