TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0446

"Revision to Indebtedness Cash-Call Trigger"

Version 1.0

Date: 18 December 2000

Proposed Implementation Date: 1 February 2001

Urgency: Not Urgent

Justification

The recent failure of Independent Energy has exposed the shipping community to some £1.5M of pre-receivership energy balancing debt. This has focused attention on the need to tighten-up current credit management procedures, which have remained largely unchanged (other than Modification 103 implemented on 1 October 1997) since the introduction of the Network Code in 1996. Of particular concern is the potential for Users to rapidly increase indebtedness through trading at the National Balancing Point (NBP) that result in large imbalance positions. Members of the Energy Balancing Credit Committee (EBCC) have concluded that a better measure of indebtedness is required.

Prior to the due date of a Balancing Invoice, Users can build up levels of indebtedness if, day after day, they have a consistent deficit on their daily energy balance. The number of days which the Network Code allows for finalising energy allocation at entry plus the period for preparation and payment, would, in the extreme, allow Users to accrue up over two months of imbalance debt. If on the due date, the User were unable to pay the invoice, the Users as a whole are required to fund this deficit in expected payments, which in the absence of additional controls could be substantial.

Transco, therefore, on behalf of all the Users, operates procedures that seek to track each User's ongoing energy debt position. This allows action to be taken to protect the exposure of all the Users to a single User's excess debt. One of the key actions available to Transco is a Cash Call. This operates once a User has established an Energy Imbalance debt that exceeds 85% of its Secured Credit Limit.

Transco's actions have to be in accordance with both the Network Code and the Energy Balancing Credit Rules and the latter are subject to the approval of the Energy Balancing Committee. This committee is established by the Network Code as a committee of Users under the non-voting chairmanship of Transco. Ofgem also routinely attends the committee meetings in a non-voting capacity.

This Energy Balancing Credit Committee has identified an issue arising from the present Network Code rules. With respect to each Gas Day, initial allocation at entry does not need to take place until seven Business Days later and this is the first date that the scale of the debt can be identified. At this time the User may have effectively accumulated a further debt in the intervening period (the "unmeasured period"), which would be a minimum of nine calendar days.

There is therefore a need for a Network Code Modification,which estimates the indebtedness of a User on the day that the debt is reviewed. This estimate of indebtedness would then be compared with the Cash Call Limit and a decision to Cash Call would be made on that basis.

Nature of Proposal

It is proposed that when aggregated over a rolling seven day period the User has an energy balancing debt, the following additional calculations shall be carried out in order to update the Users anticipated credit position.

- For each Gas Day within the measurement period set the energy balancing deficit or surplus (in kWh) to the value n days previously. Where n is the number of calendar days equivalent to the previous seven Business Days.

- Apply to these deficits and surpluses the System Average Price for that Gas Day to derive an equivalent debit/credits for each Gas Day

- Aggregate these debits and credits for the measurement period and derive a net debit

- Add this net debit to the Outstanding Relevant Balancing Indebtedness prevailing immediately prior to the commencement of the measurement period.

- For the purpose of Cash Call this revised debt shall be the Outstanding Relevant Balance Indebtedness.

Purpose of Proposal

The purpose of this proposal is that Users as a whole will have a reduced exposure to balancing charges caused by an unrecoverable energy balancing debt incurred by a single User. It is estimated that an additional £0.7M of Independent Energy's pre-receivership energy balancing debt would have been secured if these procedures had been applied.

Consequence of not making this change

Users as a whole will not only be exposed to funding the deficits of a single User's unrecoverable debts at the time an unsatisfactory debt position was identified but also for any additional debts which that same User incurred through energy balance deficits for a minimum of a further nine calendar days.

Area of Network Code Concerned

Network Code Supplement Sections 2.5 and 2.6

Proposer's Representative Jane Butterfield

Proposer: Peter Bolitho

Signature:

Company: Powergen UKplc

Also supported by EBCC representatives from the following organisations (who were in a position to lend their support as of noon 18 December 2000); Innogy, Aquila, Accord, and British Gas Trading.
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