

To all UNC Parties

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Dear Industry Colleagues,

### **Collateralisation of the OCM - information provision**

#### **Background**

National Grid Gas, in its role as residual system balancer has a number of tools at its discretion. The primary energy balancing tool utilised by National Grid is the On-the-day Commodity Market (OCM) that is operated independently by APX Gas Ltd.

In 2006, APX Gas Ltd applied for FSA authorisation, a requirement of which is the collateralisation of all the markets it operates, including the OCM. Upon being granted FSA authorisation, APX Gas Ltd was required to comply with all the relevant FSA requirements for operating a traded market, including any associated legislation.

As a consequence, the credit policy for the OCM set out in Schedule 1 to the Market Rules was changed by APX Gas Ltd whereby Users (including National Grid Gas) of the OCM would be required to provide collateral.

#### **UNC 0125 Introduction of new balancing neutrality charge for cost of residual balancer collateral on the OCM**

In order to recover the Residual Balancer OCM collateralisation costs, National Grid Gas raised UNC Modification Proposal 125 *"Introduction of new balancing neutrality charge for cost of residual balancer collateral on the OCM"* on 1<sup>st</sup> December 2006. Ofgem directed the implementation of UNC0125 with effect from 1<sup>st</sup> February 2007.

During the development and consultation of UNC0125, National Grid Gas recognised those concerns raised by some respondents regarding the transparency of National Grid's proposed arrangements. National Grid Gas gave an undertaking that it would publish the costs of collateralisation as part of its obligations under Licence Special Condition C5; Licensee's procurement and use of system management services.

**Publication of OCM Collateralisation Information**

National Grid Gas, in its role as residual system balancer, intends to publish the costs associated to its collateralisation of the OCM for 2007-2008 within the annual Procurement Guidelines (Transmission) report in April 2008. For future years, the Procurement Guidelines will be amended to reflect this requirement to report OCM collateralisation.

For the OCM collateralisation costs incurred between the UNC0125 implementation date of 1<sup>st</sup> February 2007 through to 31<sup>st</sup> March 2007, National Grid Gas will publish the information by the end of October 2007.

Please contact me if you require further clarification or have any questions relating to this subject.

Yours sincerely,

Steve Pownall