

Modification Proposal
Introduction of the right for the Energy Balancing Credit Committee to instruct
National Grid NTS as to appropriate Recovery Steps in respect of Energy
Balancing debt
Modification Reference Number TBA
Version DRAFT

Date: 19/07/2006

Proposed Implementation Date: 01/10/2006

Urgency: Non-Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

To be discussed within the Uniform Network Code (UNC) Distribution Workstream.

Nature and Purpose of Proposal (including consequence of non implementation)

Following Energy Balancing Credit Committee (EBCC) members' detailed review of the circumstances in which Termination Notices could be issued by the EBCC, members believe that the existing provisions set out within the Uniform Network Code (UNC) in respect of Enforcement and recovery steps for Energy Balancing debt are insufficient and have the potential to expose National Grid NTS to a conflict of interests where a Transportation Debt also exists. Members believe that the provisions of UNC section (X3.4.3) should be amended to provide for the EBCC to instruct National Grid NTS as to the most appropriate recovery action to be taken in order to clearly demonstrate that every effort is being made to curtail the community's exposure to avoidable financial loss in the event of User default.

Uniform Network Code currently sets out the following provisions in respect of enforcement and recovery steps:

UNC Section X 3.4.2 states "National Grid NTS agrees that it will, subject to the further provisions of this paragraph 3.4, take all reasonable steps to recover Energy Balancing Debt from a defaulting User, and to enforce and realise the Security provided by a defaulting User; provided that nothing in Section X shall require National Grid NTS to initiate or continue any Recovery Steps where to do so would in National Grids NTS's reasonable opinion expose National Grid NTS or any representative of National Grid NTS to any material risk or liability against which National Grid NTS is not adequately protected by virtue of paragraphs 3.4.4 and 3.4.6."

UNC Section X3.4.3 builds upon these provisions and states " National Grid NTS will consult with the Energy Balancing Credit Committee and keep such committee reasonably informed as to the Recovery Steps it takes in relation to Energy Balancing

Debt, and circumstances in which National Grid NTS does not consider it commercially worthwhile to take or continue to take such Recovery Steps in relation to Transportation Debt; and will and shall be entitled to discontinue taking Recovery Steps (other than any steps necessary for such discontinuance) where the Energy Balancing Credit Committee has authorised it to do so.”

Currently NTS is not required to take Recovery Steps where to do so would expose it to loss which cannot be recovered by X 3.4.4 and 3.4.6 and thus when acting in accordance with X3.4 it has a means of avoiding such exposure. However if NTS is instructed to act then it would have no such protection. This proposal will amend the UNC such that NTS will be protected from any losses sustained which it cannot recover by X3.4.4 and 3.4.6 when acting in accordance with such instructions.

In addition, this proposal will recognise that following instruction from the EBCC to take appropriate Recovery Steps in respect of Energy Balancing debt should not prevent or delay NTS in the recovery of NTS Transportation debt This also aligns with the Termination principles in V4.3.

This proposal seeks to revise the provisions of Section X3.4.3 requiring National Grid NTS to convene a meeting of the EBCC as soon as is reasonably practicable following the issue of a Termination Notice to a defaulting User. Scope of such meeting should include but not be limited to the following:

- circumstances under which the User has defaulted
- details of the Users financial position (including details of Energy Balancing Debt, the value of any potential Monthly Adjustment Neutrality Amount in accordance with Section X 1.1 and of any securities held)
- details of the Users Shipper and Supply Licenses /arrangements
- recovery options available and the timescales associated with the implementation of such actions.
- details of the Users portfolio
- provide decision and instruction to National Grid NTS as to how to proceed.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

Following review by the EBCC of Section X of the Uniform Network Code and the EBCR, EBCC believes that the measures identified within this Modification Proposal further the GT Licence relevant objective of facilitating the efficient and economic operation by the licensee of its pipe-line system by ensuring that robust procedures and best practice measures are in place to minimise the impact on the industry of User failure.

Additionally, EBCC believe that making revision to the rules governing the management of Energy Balancing Credit Management, the level of risk faced by Users could be reduced. The revisions proposed demonstrate continued development of the objectives of the EBCR, 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”, therefore implementation of this Proposal would be consistent with the relevant objective of the promotion of efficiency in the implementation and administration of the Network Code and/or the Uniform Network Code.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

Code Concerned, sections and paragraphs

Uniform Network Code

Proposer's Representative

Mike Young

Proposer

British Gas Trading Ltd

Signature