**Stage 01:** Modification

At what stage is this document in the process?

| | |
|---|---|
| 01 | Modification |
| 02 | Workgroup Report |
| 03 | Draft Modification Report |
| 04 | Final Modification Report |

# 0585:

## Separation of NTS and National Grid owned networks – Calculation of Code Credit Limit and Value at Risk

In relation to the proposed sale of National Grid's distribution networks, this modification identifies Credit Management related changes to the UNC Transition Document to enable the calculation of the Code Credit Limit and determination of the Value at Risk immediately following the hive-across date.

The Proposer recommends that this Modification should be:

- not subject to self-governance
- assessed by a Workgroup

Low Impact: Gas Transporters and Shippers

## Contents



## About this document:

This modification will be presented by the proposer to the panel on 16th June 2016.

The panel will consider the proposer's recommendation and agree whether this modification should be:

- not subject to self-governance
- referred to a workgroup for assessment.

| The Proposer recommends the following timetable: | |
|---|---|
| Initial consideration by Workgroup | 23 June 2016 |
| Workgroup Report presented to Panel | 21 July 2016 |
| Draft Modification Report issued for consultation | 21 July 2016 |
| Consultation Close-out for representations | 11 August 2016 |
| Final Modification Report available for Panel | 12 August 2016 |
| UNC Modification Panel recommendation | 18 August 2016 |

**Any questions?**


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# 1 Summary

## Is this a Self-Governance Modification?

It is proposed that this Modification should not be subject to self-governance procedures. This is because the identified changes have a material effect on gas consumers or on competition.

This is because the changes required are to facilitate calculation of an opening Transportation Code Credit Limit (CCL) for the purposes of National Grid Gas Distribution Limited's (NGGDL's) Network Code.

## Is this a Fast Track Self-Governance Modification?

Fast Track procedures are not requested.

## Why Change?

National Grid Gas plc (National Grid) currently owns and operates the NTS and 4 networks; North West, West Midlands, East Midlands and London (comprising National Grid Gas Distribution (NGGD). Though the UNC currently recognises National Grid as owner and operator of the NTS and as a Distribution Network Operator (DNO), it treats National Grid as a single party with a single network code. National Grid is proposing to transfer the business and assets of NGGD to a new company (NGGDL). UNC Modification 0582 has been raised to facilitate the changes required to UNC to expedite separation.

> This Modification is complementary to, and contingent upon the implementation of, Modification 0582, which effects the changes to UNC required to recognise the separation in ownership of the NTS and NGGD.

The UNC requires Users to put in place credit for their transportation liabilities, which currently are a consolidated position for National Grid and need to be split. It ensures the appropriate calculation of a Shipper User's CCL is driven by the 'Value at Risk' (VAR) determination for NGGDL immediately following the 'hive-across' date.

## Solution

Modification of the UNC (Transition Document) is proposed as follows:

- A Shipper User's CCL as at the hive-across date for NGGDL would be calculated based on the revised VAR based on the Distribution elements of the invoices issued by National Grid Gas as at 19$^{th}$ October 2015.
- A Shipper User's NGGDL CCL will be determined prior to the hive-across date of 1st October 2016.

This requires transitional rules only, as existing rules on VAR will be applied once NGGDL is in a position to do so, i.e. it has unpaid invoices and a history of charges which allow the VAR calculation to operate as intended.

For the avoidance of doubt no enduring provisions are required.

## Relevant Objectives

This Modification furthers relevant objective f) Promotion of efficiency in the implementation and administration of the Code because it ensures that a Shipper User's VAR is calculated correctly such that the risk to the industry of a breach of its CCL by a defaulting Shipper User is minimised.

## Implementation

No implementation timescales are proposed. However, it is noted that implementation should be contingent on the implementation of Modification 0582, and as a consequence, once 0582 is implemented then this modification should be implemented as soon as possible thereafter, and before 01 October 2016.

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Neither the Switching SCR nor implementation of Project Nexus is impacted.

## 2 Why Change?

The calculation of a Code Credit Limit ('CCL') and determination of Value at Risk ('VAR') are requirements under TPD Section V Paragraph 3.

The VAR mechanism determines the minimum value of a Shipper User's CCL. The VAR at any one point in time is deemed to be:

- the aggregate value of all Transportation charges which at that time have been invoiced to the User that remain unpaid (regardless of whether the Invoice Due Date has passed), and
- The average daily rate of the aggregate amount of Transportation Charges invoiced to the User in the previous calendar month multiplied by 20.

This determines the minimum value of the CCL a Shipper User is required to establish with the Transporter. At any point in time, the User's CCL must be equal to or greater than its VAR.

The UNC further requires that the User's VAR should not exceed 100% of its CCL and in such instances the User has 2 Business Days from the day of breach to remedy such breach.

Charges which relate to the NGGD networks and which accrue prior to the hive-across (and whether or not invoiced) will be invoiced post hive-across by NGGDL.

Where a User, parent company or qualifying company has an Approved Credit Rating the unsecured credit limit is based on 2% National Grid's Regulated Asset Value (RAV). It should be noted that currently the unsecured calculation is based on the combined Transmission and Distribution RAV (2016/7).

The data, including paid and unpaid items, will remain with National Grid apart from the unpaid Distribution items. These items will be migrated to NGGDL. The VAR will be recalculated for each Shipper at 1st October 2016.

The following tables illustrate the current limit, £value, and revised limits upon hive-across:

**Example**
**Shipper A @ 30th September 2016 in CC 1000 (for this example all amounts are fictitious).**

| | |
|---|---|
| 6/9/16 Distribution charge | £100 – paid 20/9 |
| 6/9/16 Transmission charge | £100 – paid 20/9 |
| 6/9/16 Transmission charge | £100 – paid 20/9 |
| 12/9/16 T&D charges | £100 – paid 23/9 |
| 12/9/16 Transmission charge | £100 – paid 23/9 |
| 12/9/16 Distribution charge | £100 – paid 23/9 |
| 22/9/16 Distribution charge | £100 – Unpaid due for payment 4/10 |
| 26/9/16 T&D charges (£50 each) | £100 – Unpaid due for payment 7/10 (£50 each) |
| 26/9/16 Transmission charge | £100 – Unpaid due for payment 7/10 |

**VAR calculation**
**£600 ( total of items in red) divided by 30 multiplied by 20 = £400**
**Plus unpaid invoices £300 ( total of items in blue)**
**VAR = £700 @ 30th September 2016**

**Shipper A @ 1st October 2016 in CC 1000 Retained**

| | |
|---|---|
| 6/9/16 Distribution charge | £100 – paid 20/9 |
| 6/9/16 Transmission charge | £100 – paid 20/9 |
| 6/9/16 Transmission charge | £100 – paid 20/9 |
| 12/9/16 T&D charges | £100 – paid 23/9 |
| 12/9/16 Transmission charge | £100 – paid 23/9 |
| 12/9/16 Distribution charge | £100 – paid 23/9 |
| 26/9/16 Transmission | £50 – Unpaid due for payment 7/10 |
| 26/9/16 Transmission charge | £100 – Unpaid due for payment 7/10 |

**VAR calculation**
**£600 ( total of items in red) divided by 30 multiplied by 20 = £400**
**Plus unpaid invoices £150 (total of items in blue)**
**VAR = £550 @ 1st October 2016**

**Shipper A @ 1st October 2016 in CC 1035 gas Distribution**

| | |
|---|---|
| 22/9/16 Distribution charge | £100 – Unpaid due for payment 4/10 |
| 26/9/16 Distribution | £50 – Unpaid due for payment 7/10 |

**VAR calculation**
**£0 ( No historic data divided by 30 multiplied by 20 = £0**
**Plus unpaid invoices £150 ( total of items in blue)**
**VAR = £150 @ 1st October 2016**

It is therefore necessary to mitigate the risk to the industry of a Shipper User defaulting on the un-invoiced value to the 5th October 2016 or invoiced value on the 6th October 2016 by:

- calculating a CCL for the User effective from 1st October 2016
- calculating a 'reflective' VAR
- avoiding a need to issue 100% breach notices on 6th October requiring the User to remedy such breach within 2 days to avoid sanctions and ultimately termination

This change is required because the hive-across event creates a separate transportation company and the existing National Grid CCL would apply to amounts due to NGG only. Therefore the addition is required for NGGDL.

Complementary information illustrating the effect on Shipper Users is appended to this Proposal.

# 3 Solution

Modification of the UNC (Transition Document only) is proposed as follows:

- A Shipper User's CCL at the hive-across date for NGGDL will be calculated based on a VAR determined as the sum of:
  - distribution charges included in the LDZ Capacity Invoice, Commodity Invoice, Reconciliation Invoices and Small Value Invoices invoiced by National Grid Gas to the User in the period between the 1st and 19th of October 2015; plus
  - the average daily rate of the aggregate amount of transportation charges invoiced to the User in September 2015, multiplied by 20.

  Note: NGGDL's VAR will be the true VAR from day 1. the 'deemed' VAR is to ensure Shipper Users have in place a CCL for NGGDL prior to 1st October 2016. By utilising a VAR based on the position at 19th October 2015 this should provide the Shippers with a more accurate CCL to cover the first months VAR for NGGDL.
- A Shipper User's NGGDL CCL will be determined prior to the hive-across date of 1st October 2016
- In the case of Users who are not party to the Code:
  - on 30 September 2015, the VAR will be determined by reference to the User's peak VAR in the period to 31 August 2016;
  - on 31 August 2016, the VAR will be the forecast VAR used by National Grid for the purposes of determining the User's initial Code Credit Limit on the User's accession to Code.

Note: This modification is contingent upon implementation of UNC Modification 0582S.

| User Pays | |
|---|---|
| Classification of the modification as User Pays, or not, and the justification for such classification. | No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification. |
| Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view. | Not applicable |
| Proposed charge(s) for application of User Pays charges to Shippers. | Not applicable |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve. | Not applicable |

## 4 Relevant Objectives

| Impact of the modification on the Relevant Objectives: | |
|---|---|
| Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | None |
| b) Coordinated, efficient and economic operation of<br>(i) the combined pipe-line system, and/ or<br>(ii) the pipe-line system of one or more other relevant gas transporters. | None |
| c) Efficient discharge of the licensee's obligations. | None |
| d) Securing of effective competition:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | None |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers. | None |
| f) Promotion of efficiency in the implementation and administration of the Code. | Positive |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |

This Modification furthers relevant objective f) Promotion of efficiency in the implementation and administration of the Code because it ensures that a Shipper User's VAR is calculated correctly such that the risk to the industry of a breach of its CCL by a defaulting Shipper User is minimised.

## 5 Implementation

No implementation timescales are proposed. However, it is noted that implementation should be contingent on the implementation of Modification 0582, and as a consequence, once 0582 is implemented then this modification should be implemented as soon as possible thereafter, and before 01 October 2016.

# 6 Impacts

## Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

It is not expected there would be any material impact on the SCR or any other significant industry change project.

# 7 Legal Text

## Text Commentary

To be provided

### Text

[Draft] legal text

**TRANSITION DOCUMENT, PART IIB** [1]

*Add new paragraphs 12.2 and 12.3 to read as follows:*

12.2 Subject to paragraph 12.3, for the purposes of giving effect to the provision of TPD Section V3 of the New Transporters Network Code on the First Day and each later Day in the calendar month in which the First Day falls ("**relevant day**"), a User's Value at Risk for a relevant day shall be determined as:

(a) the aggregate of the amounts invoiced under a:

(i) LDZ Capacity Invoice;

(ii) Commodity Invoice in respect of:

(1) LDZ Commodity Charges;

(2) Customer Charges;

(3) Supply Point Ratchet Charges – LDZ Capacity Charges;

(iii) Reconciliation Invoice in respect of:

(1) Reconciliation Transportation Adjustment Charges in respect of LDZ Commodity Charges and the Commodity Variable Component of Customer Charges (including charges in respect of a CSEP);

(2) User Aggregate Transportation Charge Adjustments in respect of LDZ Commodity Charges and the Commodity Variable Component of Customer Charges (including charges in respect of a CSEP); and

(iv) Small Value Invoice in respect of charges referred to in paragraphs (a), (b) or (c).

submitted by National Grid to the User in the period from 1 October to (and including) 19 October 2015; plus

[1] *Based on text to be introduced to TB Part IIB (to replace all existing text in that Part) under Modification 0582S*

(b) the average daily rate of the aggregate amount (other than Energy Balancing Charges) invoiced to the User by National Grid in September 2015, multiplied by twenty (20).

12.3 Where a User was not a User on:

(a) 30 September 2015, the User's Value at Risk for a relevant day shall be determined as the User's highest Value at Risk on any day in the period up to (and including) 31 August 2016;

(b) 31 August 2016, the forecast Value at Risk provided by the User to National Grid to allow National Grid to assign the User an initial Code Credit Limit for the purposes of TPD Section V2.1.2(g).

# 8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should be subject to self-governance; and
- Progress to Workgroup assessment.