

CODE MODIFICATION PROPOSAL No xxxx

<Title>
Version x.x

Date: 03/03/2009

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used.*

This Modification Proposal, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).*

Background

Review Group 0221 “Review of Entry Capacity and the Appropriate Allocation of Financial Risk” was established in September 2008 to assess whether or not the current credit arrangements in place for securing long term NTS Entry Capacity were sufficiently robust and provide the correct balance of risk between various Shipper Users.

Following Review Group 221 discussions, National Grid NTS believes there are two key issues that have been identified:

1. The current credit rules within the UNC require that a User puts in place credit arrangements to provide security for the 12 months immediately prior to the start date of the entry capacity previously bought in a QSEC auction. If insufficient credit is put in place all QSEC rights (across all ASEPs) “for the relevant quarters” is removed. However, National Grid would still be required to make capacity available for the next quarter, enabling a user at a single entry point to defer capacity commitments 12 months prior to the event and keep deferring each quarter.
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 Transportation Charges. NG NTS and Review Group attendees consider that the timing of 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, Transportation Charges.

Modification Proposal

National Grid NTS has raised this Modification Proposal to address issue 1 described above. A separate Modification Proposal seeks to address issue 2.

Current security provisions set out in B2.2.15 of the UNC mean that NG NTS looks at the sum of the User's current Relevant Code Indebtedness* and the following 12 months liability for capacity charges associated with Quarterly NTS Entry Capacity*, as acquired in Quarterly System Entry Capacity* (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 Firm 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 Firm NTS Entry Capacity.

These provisions define the requirement for NG 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 the provision in the UNC within Section B2.2.15 remain in place.

However, we propose to amend Section B 2.2.16 to remove the current ability for the User's Registered Quarterly Firm NTS Entry Capacity to lapse and the default rules described in Section V will now apply where the User has not provided the security required under Section B2.2.15, i.e. the User will continue to be treated as holding the relevant Firm NTS Entry Capacity and will be subsequently invoiced for the capacity. Any failure to pay the above invoices will be treated in the same way as any other transportation debt.

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.

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.**

2 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 provides an incentive for Users to honour existing and future entry capacity auction commitments.
- In respect of Standard Special Condition A11 1(d), the securing of effective competition, this Proposal aims to reduce the Shipper community's exposure to a User failing to pay for their Entry Capacity holdings.

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

This proposal seeks to mitigate the risk to the shipper community of a User failing to pay capacity charges, by removing the current ability for single ASEP User's to allow their capacity to lapse.

4 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 provide an incentive for Users to honour existing and future entry capacity auction commitments and ensure that any investment in the NTS is efficient and economic.

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

None have been identified.

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:**

Not applicable.

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.

- 5 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.

- 6 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**

No such consequences have been identified.

- 7 The implications for Users of implementing the Modification Proposal, including:**

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

This proposal has implications for single ASEP User's, 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**

No such consequences have been identified.

- 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**

No such consequences have been identified.

- 8 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.

- 9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

No such consequences have been identified.

- 10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

Advantages

National Grid NTS believes that by removing the current ability for the User's Registered Quarterly Firm NTS Entry Capacity to lapse:

- This proposal provides an incentive for Users to honour existing and future entry capacity auction commitments.
- This proposal lessens the risk of, and shipper community exposure to, an event of a Shipper failing to pay its entry capacity charges.

Disadvantages

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

- Single ASEP Users will no longer have the ability for Registered Quarterly Firm NTS Entry Capacity to lapse and will have to provide security and pay for such capacity that they may not be in a position to use.

11 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)

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

13 Any other matter the Proposer considers needs to be addressed

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

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s)

Proposer's Representative

Name (Organisation)

Proposer

Name (Organisation)