

**CODE MODIFICATION PROPOSAL No.**  
**" Amend the BNFA Neutrality Interest Rate"**

Version draft 1.0

**Date:** 7 September 2005

**Proposed Implementation Date:** 1 January 2006

**Urgency:** Non- Urgent

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

Direct to consultation

Following discussion at the 16<sup>th</sup> September 2005 EBCC meeting

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

This Proposal seeks to amend the term definition for 'Neutrality Interest Rate' as provided under UNC General Terms, section C: Interpretation paragraph 1: Defined Terms which currently states that:

**"Neutrality Interest Rate"** means the percentage rate calculated as the base rate for the time being of Barclays Bank plc divided by 365.

Transco proposes that reference to 'Barclays Bank plc' base rate is amended to 'prevailing' rate.

The objective of the Balancing Neutrality Finance Adjustment (BNFA) is to ensure that Transco NTS ( in respect of the Neutrality Account) neither gains nor loses through timing differences in cash flow, relating to receipts and payments which make up Balancing Neutrality and Balancing Neutrality apportionment.

UNC Section F 4.6, states that the BNFA for a day is the amount calculated as the Neutrality Interest Rate for the day multiplied by the closing cash balance for that day. The BNFA can be by way of either a payment or receipt in respect of both Balancing and Reconciliation charges.

Following the Network Sales on the 1<sup>st</sup> May 2005, Xoserve adopted the responsibility of managing and owning the Energy Balancing Neutrality Account. Interest charged/earned will be debited/credited directly to/from the account. Interest charges/received will be recovered/distributed to the Users through the neutrality mechanism.

Under current arrangements any interest on the Neutrality account will be calculated based on the Neutrality Account balance (e.g. in debit/credit), therefore in order for the Neutrality Account to remain neutral, the interest rate applied to BNFA invoice item on the Energy Balancing Invoice and the interest rate applied by the Bank in respect of the Neutrality Account must be an equal rate. This is currently not the case as, under the prevailing arrangements, Transco NTS receives a lesser rate of interest, from Barclays Bank plc, for any interest applied to this account. This rate applies whether it has interest due to the account or due from the account.

The prevailing UNC states that the applicable rate for the Neutrality Interest Rate is Barclays Bank plc base rate. Therefore there is a risk that, when the Neutrality Account is in credit, Transco NTS will be required to apply a greater interest payment to Users, through the BNFA, than was actually received, from the Bank, through the Neutrality Account. Conversely when the account is overdrawn the interest rate charged will be below that recovered from Users.

Transco NTS believes that the current method of applying the BNFA does not conform to the basic principles and intent of the Neutrality mechanism and may inappropriately apportion neutrality. Transco NTS proposes that the Neutrality Interest Rate is amended such that the 'prevailing interest' rate is referred to as opposed to 'Barclays Bank plc interest rate'. This may ensure that the applicable Neutrality Interest Rate is equal to the interest rate applied by Barclays Bank Plc in respect of the Neutrality Account.

**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**

Transco NTS believes that the proposed implementation of an amendment to the defined term 'Neutrality Interest Rate' ensures that the calculation of the BNFA is consistent with the principles of neutrality. The proposed change mitigates any risk that neutrality costs are inappropriately apportioned across the community and therefore may better facilitate 'effective competition between relevant shippers and between relevant suppliers' in accordance with Standard Special Condition A11. Network Code (d) of the GT Licence.

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

For the purposes of better informing the consultation of this Modification Proposal Transco NTS has provided the following additional information:

**Advantages of the Proposal**

- If implemented the Proposal ensures that the principles of neutrality are up held.
- Ensures the Neutrality Account is balanced appropriately.
- Ensure that no costs are generated and borne by one individual outside the principles of neutrality charging.

**Disadvantages of the Proposal**

- The Community may receive less interest when the account is in credit but conversely will receive lower charges when the account is overdrawn.

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

No implications on the system are anticipated.

**The implication for Transporters and each Transporter of implementing the Modification Proposal, including**

**a) implications for operation of the System:**

Transco NTS does not anticipate any such implications.

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

Transco does not anticipate any such implications.

**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

Transco NTS does not anticipate that any such cost are required to be recovered.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences are anticipated.

**The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequences are anticipated.

**The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

No such implications are anticipated.

**The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

No such implications are anticipated

**Legal Text**

*Draft text proposed :-*

UNC General Terms – C: Interpretation 1: Defined Terms states:-

““**Neutrality Interest Rate**” means the ~~percentage rate calculated as the base interest rate applied from time to time to the bank account used by Transco NTS for the purposes of receiving, and making, payment of the amounts specified in TPD Section F4.6.2. for the time being of Barclays Bank plc divided by 365.~~ **interest rate applied from time to time to the bank account used by Transco NTS for the purposes of receiving, and making, payment of the amounts specified in TPD Section F4.6.2.**”

**Proposed implementation Timetable**

Proposal submitted to October Panel	17/11/2005
DMR issued	08/12/2005
Closeout for Consultation	03/01/2006
FMR issued	12/01/2006
Panel recommendation (Dec Panel)	19/01/2006
Ofgem for decision	23/01/2006
Implementation upon Ofgem direction	

It is proposed that if approved the revised rate will be effective from the 1<sup>st</sup> of the month following Ofgem’s decision.

**Code Concerned, sections and paragraphs**

UNC TPD section F 4.6.1; and

UNC General Terms – C : Interpretation 1 : Defined Terms

**Proposer's Representative**

**Proposer**

**Signature**

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