

Question 4.1 Who/What capacity holders should be captured by these requirements and how should this be assessed? Option (ii) all new capacity holdings & option (iii) all new and existing capacity holdings based on a credit assessment.

Note 1: The period considered in this assessment is that period prior to the first gas flow day.

Note 2: An example of a New Single Point User could be Canatxx Shipping whilst an example of a Multiple Point User could be BGT.

User Type	Entry Point Type	Option (ii) New Capacity Only		Option (iii) All New & Existing Capacity	
		Advantages	Disadvantages	Advantages	Disadvantages
<p>New Single Point User</p> <p>(This could be purchasing either baseline or incremental capacity)</p> <p>(An example of a User of this type could be Canatxx Shipping)</p>	<p>Existing Entry Point</p> <p>(Low risk scenario for community as capacity can be made available to other parties should one party default).</p>	<p>All rules would be in place prior to future auctions. Processes and requirements would be clear.</p>	<p>Potentially 'preferential' treatment for existing parties over new parties as capacity for future years that was sold in earlier auction not secured whereas capacity for same future period but sold in current/next auction may require security.</p>	<p>No specific benefit to new user but removes any potential advantage that existing parties might accrue.</p>	<p>May create a disincentive long term booking.</p>
		<p>Assuming that all security is in place then all new capacity will be secured so risk to community will reduce</p>	<p>May inhibit entry of new Users (more than (iii))</p>	<p>Assuming that all security is in place then all capacity will be secured so risk to community will reduce.</p>	<p>May inhibit entry of new Users.</p> <p>May precipitate withdrawal of some Users. (implementation issue)</p>
<p>New Single Point User</p>	<p>New Entry Point (assumes that Release Obligation is after implementation of new arrangements)</p>	<p>Under this scenario there is no option (iii) though there is a general benefit that risk to community will reduce if security</p>	<p>Security arrangements may present a higher hurdle to the New User than that associated with an Existing Multiple Point User.</p>		

User Type	Entry Point Type	Option (ii) New Capacity Only		Option (iii) All New & Existing Capacity	
		Advantages	Disadvantages	Advantages	Disadvantages
		requirements are tightened.			
Multiple Point User (An example of a User of this type could be BGT)	New Entry Point	Option (ii) & (iii) default to same position as all capacity will be new and all participants at that point will be in same position. There is a general benefit that risk to community will reduce if security requirements are tightened. The community is likely to be more secure in this scenario than the New User, New Entry Point scenario above because existing market share would give the User the ability to provide security.			
Multiple Point User (This could be purchasing either baseline or incremental capacity)	Existing Entry Point	Protection for community increases but the financial impact on Users at this point less than for option (iii).	No additional incentive on existing parties to release unused capacity.	Best outcome for reducing community risk as changes rapidly feed through system resulting in higher levels of security being in place.	Most involved scenario for existing users to cope with. Potentially a complex process to put arrangements in place e.g. long lead in times for existing components may be requested by

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		Advantages	Disadvantages	Advantages	Disadvantages
					users.
		Potentially less involved than option (iii) as all rules in place prior to future auctions so processes and requirements are clearer.	No specific disadvantages for users at this point other than anticipated increases in costs of providing security.	Provides additional incentive for existing parties to release unused capacity.	Cost: Potentially high costs involved in securing full value of current socialised risk. e.g. TO Auction revenue for 08/09 forecast at £200M.

Question 4.3: Should any revision to security arrangements be applied to previous auction allocations that are yet to reach the capacity date?

Option A: Security is required only for capacity allocated in auction run after the implementation of new arrangements.

Option B: Security is needed for any capacity allocated in a past auction but which is to be released after the implementation of new arrangements.

Option C: Security is needed for any capacity currently allocated to the User.

Note: These scenarios cover those periods up until the first gas flow day at which time the existing arrangements become applicable.

Option A		Option B		Option C	
Advantages	Disadvantages	Advantages	Disadvantages	Advantages	Disadvantages
Consistent with UNC process i.e. changes approved with a future implementation date.	Does not affect the current perceived balance of risk between users and the community.	Considered that this is acceptable within UNC framework where sufficient lead time to implementation of new arrangements is given.	The processes needing to be put in place could be more complex than for either Option A or C given the range of timings for the auctions and subsequent capacity releases.	Would affect the balance of risk between users and community in the community's favour.	Sudden increase in industry wide requirement to provide security may require delayed implementation for Security Instrument Providers to provide instruments required and for National grid to assess them.
All users treated the same way BUT the impacts on new versus existing users could be different. i.e. existing users who have already secured capacity for particular time period don't need security whilst in next auction covering that period new users are required to provide security.		Would affect the balance of risk between community and users in the community's favour.	Application of a new liability that was not envisaged at the time of auction bidding.	Treats all users the same.	Some users may not be able to comply with new arrangements and may face increased risk of failure or sanctions.

Option A		Option B		Option C	
Advantages	Disadvantages	Advantages	Disadvantages	Advantages	Disadvantages
Although costs to users would increase, the costs would be foreseeable and could be planned for.				Crystallises and quantifies current socialised risk.	