

CODE REVIEW PROPOSAL No xxxx
Review of Entry Capacity and the Appropriate Allocation of Financial Risk
Version x.x

Date: 05/08/2008

Nature and Purpose of Proposal

The current credit rules within the UNC require that a User puts in place credit arrangements to provide security for the 12 months prior to the start date of the QSEC capacity bought, which includes the Incremental Capacity Release Obligations, rather than at the point where the costs of pipeline construction potentially begin to be incurred following the auction process. Therefore there is currently a period of time where costs could be incurred prior to any commitment underwriting being put in place.

As the patterns of gas delivery to the NTS change and the GB market becomes increasingly dependent on overseas gas supplies significant investment is currently expected in order to develop import and storage facilities and their connections to the NTS system potentially by participants that are 'new' to the GB gas market and may be single entry point Users. In this context, one facet of the existing credit arrangements is that there is potentially an increased risk of User default resulting in increased costs being incurred by other industry stakeholders. The entry capacity incentive arrangements from April 2007 mean that National Grid Gas NTS will receive 5 years of incentive payments from the first month that the capacity is released based on the revenue driver in the GT Licence. In the event that the User terminates, the funded incremental obligated entry capacity can be offered for resale however, if the capacity is not bought by other Users the revenue driver income would continue to accrue. This would, in turn, lead to the SO commodity charge payable by all Users being increased to recover the allowed revenue.

National Grid Gas NTS therefore consider it to be prudent for the industry to review the current credit arrangements that underpin User commitments that are made during the Entry Capacity auctions.

It is therefore proposed that a Review Group be established to:

- review the existing credit security arrangements
- consider the issues which impact upon their efficient and effective operation
- develop potential solutions to resolve any issues identified where appropriate
- develop any contractual changes as necessary

It is anticipated that the timescales over which the review will run will enable any UNC Modification Proposals that may be required to be raised and implemented prior to the autumn of 2009.

Draft Terms of Reference for this Review Group have been attached to this Proposal though it is anticipated that an initial task of the Review Group will be to review and amend these Terms of Reference where necessary prior to their formal approval at the next UNC Modification Panel.

Furthermore it is recommended that an offer to participate in this Review Group be extended beyond current UNC signatories to include any other parties having an interest at points connected to, or likely to become connected to the NTS. This could include Storage

operators, Interconnector operators (and their Users), Developers and End Users and their representative bodies.

Any further information (Optional)

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) UNC Principal Document Sections B, S, & V

Proposer's Representative

Name (Organisation)

Proposer

Ritchard Hewitt (National Grid Gas NTS)

Draft Terms of Reference V1.0

UNC Modification Reference Number

Review of Entry Capacity and the Appropriate Allocation of Financial Risk

Background

This Review Group seeks to establish whether or not the current credit arrangements in place for securing Entry Capacity are sufficiently robust and provide the correct balance of risk between various UNC Parties. Where issues are identified this Review Group should seek remedies to resolve them.

Purpose

The Review Group is to consider the following:

- Consider whether the current credit and security arrangements are sufficiently robust to underpin User commitments effectively. For example; lead time, duration, level of credit cover, types of credit mechanisms, type of capacity covered by any new arrangements.
- Consider whether the current arrangements unduly impact existing Users to a greater extent than they do for new Users.
- Identify any necessary changes to current credit default or User termination rules.
- Identify solutions to any issues derived from the deliberations of the above key points.
- Develop, by consensus, relevant UNC Modification Proposals to deliver any proposed changes to the current arrangements.
- Identify the impact on processes and procedures associated with the implementation of any identified solutions.

Scope and Deliverables

The Review Group shall focus on changes to the UNC and relevant ancillary/associated documents pertaining to the credit arrangements underpinning User commitments made during Entry Capacity auctions. Where there are other industry arrangements having potential interactions with the outputs from this Review Group, the Review Group may consider the effects that those arrangements may have on this Group's deliberations. For example, the Review Group may wish to consider the outputs from the Transmission Access Review of the electricity transmission regime or developments in the National Grid Gas NTS Offtake Arrangements.

The Review Group will provide a written report to the UNC Panel and the final target deliverable shall be to submit any UNC Modification Proposals that have received consensus approval within the Review Group to the UNC Panel by [19 March 2009].

Limits

The Review Group will focus on developing UNC Modification Proposals that efficiently address any issues identified in a proportionate and cost effective manner. The Review Group will consider changes required to procedures and processes but will not investigate or develop changes required by IS systems.

Composition of Review Group

Since the potential impacts of changes to the credit arrangements could be wide-ranging and are as yet uncertain it is essential that the composition of the Review Group covers as many interested parties as possible. Therefore it is desirable that the group is comprised of representatives from National Grid Gas NTS, other Transporters, UNC Users, the Regulator, the EBCC, Storage operators, Interconnector Users, Developers and End Users (and their representative bodies).

Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

Although the frequency of meetings will be subject to review and potential change by the Review Group it is suggested that the initial frequency of the meetings be every two weeks.

Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

Name

Organisation