



User Commitment & Security Recovery

Gas TCMF

2nd April 2009

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UNC Review Group 0221 “Review of Entry Capacity and the Appropriate Allocation of Financial Risk”

The Review Group 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.

One of the Issues identified by the Review Group is 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 NTS Transportation Charges, i.e. non User specific NTS Commodity Charges.

Draft UNC Proposals – Security & User Default

A UNC Modification Proposal has been drafted to seek to address this and other issues in regard to Entry. An equivalent proposal has also been drafted for Enduring Annual Exit Capacity.

As part of the UNC Proposals

- ◆ Users will be required to put in place and subsequently keep in place sufficient security to underpin their existing and anticipated capacity holdings.

It is proposed that the following actions be classed as “events of User default”:

1. the required level of security exceeds the value of the security in place; or
2. the User’s supplied security tool (Letter of Credit or Deposit deed) has less than the minimum number of days validity remaining; or
3. The credit rating of the financial institution providing the Letter of Credit has gone below the minimum credit rating specified in UNC TPD Section V.

Cancellation Fee

If an “event of default” occurs, and is not rectified within the next 10 Business Days, then

- ◆ the Shipper User’s relevant capacity holding will be cancelled and
- ◆ the User will be charged a cancellation fee.

As required by the Licence, a Modification to the NTS Charging Methodology would be required to

- ◆ Define the calculation of the cancellation fee (This would mirror the UNC definitions)
- ◆ Map the collected revenues to TO & SO revenue as required
- ◆ Allow the consequential recalculation of existing charges taking into account revenues resulting from the cancellation fee

Charging Proposal

The capacity cancellation fee would need to be determined in accordance with the NTS Charging Methodology, in compliance with the following NTS Licence conditions, in order for it to offset other NTS charges;

- ◆ Standard Special Condition C8B 2(a); Definition of TORCOMt ~ TO revenue other than that collected through capacity charges
- ◆ Standard Special Condition C8C 2(a); Definition of RCOMt ~ SO revenue other than that collected through capacity and other Licence defined charges

Cancellation fees in regard to entry capacity that would have resulted in TO revenue would be treated as TO entry revenue

- ◆ This would result in reduced TO Entry Commodity Charges

Cancellation fees in regard to exit capacity that would have resulted in TO revenue would be treated as TO exit revenue

- ◆ This would result in reduced TO Exit Commodity Charges

Cancellation fees in regard to incremental entry & exit capacity that would have resulted in SO revenue would be treated as SO revenue

- ◆ This would result in reduced SO Commodity Charges (Entry & Exit)

Potential Charging Timeline

Milestone	Date
Raise Charging Proposal(s)	<i>April 2009</i>
Gas TCMF	<i>7th may 2009</i>
Consultation Close-out	<i>May 2009</i>
Consultation Report & Final Proposals	<i>June 2009</i>
Veto period expires	<i>July 2009</i>
Exit Application Window	<i>July 2009</i>
QSEC Invitation	<i>August 2009</i>

NB Timelines for the charging proposal(s) will be linked to the UNC consultation timeline(s).