



Working together to
secure a better future for
Great Britain

The Joint Office, Transporters, Shippers and
other interested parties

Your Ref:
Our Ref: Net/Cod/Mod/065
Direct Dial: 020 7901 7355
Email: modifications@ofgem.gov.uk

15 February 2005

Dear Colleague,

Uniform Network Code modification proposal 065: 'Amend the BNFA Neutrality Interest Rate'

Ofgem¹ have considered the issues raised in the modification report in respect of this proposal and, having regard to the principal objective and statutory duties of the Authority², have decided to direct the implementation of the modification.

Ofgem consider that modification proposal 065 would better facilitate the achievement of the relevant objectives of the Uniform Network Code (UNC), as set out under Standard Special Condition A11³ of the relevant Gas Transporters' Licences as compared with the existing provisions of the UNC. Ofgem also consider that modification proposal 065 would be consistent with our wider statutory duties.

This letter explains the background to the modification proposal and outlines the reasons for Ofgem's decision.

Background to the proposals

The Balancing Neutrality Finance Adjustment (BNFA) is designed to ensure that National Grid NTS (in respect of the Balancing Neutrality Account)⁴ neither gains nor loses as a result of timing differences in cash flow, relating to receipts and payments which make up Balancing Neutrality and Balancing Neutrality apportionment.

The BNFA for a day is calculated as the Neutrality Interest Rate for that day multiplied by the closing cash balance for that day. The BNFA can be either a payment to or receipt from Users, in respect of both Balancing and Reconciliation charges.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter

² Set out in Section 4AA of the Gas Act 1986, as amended.

³ This Licence Condition can be viewed at: http://62.173.69.60/document_fetch.php?documentid=6547

⁴ From 1st May 2005, xoserve adopted responsibility for the Balancing Neutrality Account.

Interest on the Balancing Neutrality Account is calculated based on the balance (ie the debit/credit). In order for the Balancing Neutrality Account to remain neutral, the interest rate applied to BNFA invoice items on Balancing Invoices and the interest rate applied by the bank in respect of the Balancing Neutrality Account must be equal.

However, when the Balancing Neutrality Account is in credit, National Grid NTS must currently apply a greater interest payment, through the BNFA, than was received from the bank, through the Balancing Neutrality Account. Conversely, when the account is overdrawn, the interest rate charged is below that recovered from relevant Users.

The proposer (National Grid NTS) believes that the current method of applying the BNFA does not conform to the basic principles and intent of the Balancing Neutrality mechanism and may inappropriately apportion neutrality.

The modification proposal

It is proposed that the Neutrality Interest Rate be amended to refer to the 'prevailing interest' rate instead of the 'Barclays Bank plc interest rate'. The proposer believes that this would ensure that the applicable Neutrality Interest Rate would be equal to the interest rate applied by the relevant bank in respect of the Balancing Neutrality Account.

Respondents' views⁵

There were two responses to this modification proposal, both of which supported its implementation.

One of these respondents offered comments, including that the proposal should improve the ease by which payments are accounted for in the energy Balancing Neutrality Account and, consequently, improve the transparency and efficiency of these transactions. The respondent went on to say that the proposal would facilitate competition between shippers and suppliers by ensuring that the interest payments relating to this account are transparent and predictable.

Panel Recommendation

At the modification panel meeting held on 19 January 2006, of the 8 voting members present, capable of casting 8 votes, 8 votes were cast in favour of implementing this modification proposal. Therefore, by panel majority, the implementation of this proposal is recommended.

Ofgem's view

Ofgem recognise the long-standing intention that, in operating on behalf of the shipping community, National Grid NTS should be financially neutral in relation to Energy Balancing. Ofgem therefore agree that the UNC should be modified to give effect to this objective.

Ofgem agree with the view expressed by a respondent that the proposal should improve the transparency and efficiency of Balancing Neutrality transactions. Ofgem also consider

⁵ This section is intended to summarise the principal themes of the respondents' views and is not intended to provide a comprehensive overview of the responses received. These can be found on the Gas Transporters information service (formally known as Nemisys) <https://gtis.gasgovernance.com>

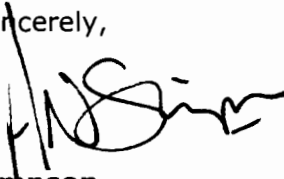
that the proposal would better facilitate the achievement of competition between shippers by ensuring that interest payments are transparent and predictable.

Ofgem's decision

For the reasons outlined above, and having regard to its principal objective and statutory duties, Ofgem has decided to direct the implementation of this modification. Ofgem believes that this modification will better facilitate the achievement of the relevant objectives of the UNC, as set out in Standard Special Condition A11 of relevant Gas Transporters Licences; in particular (d) the securing of effective competition between relevant shippers.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'N Simpson', written over a vertical line.

Nick Simpson
Director, Modifications