UNC Termination Process

DISG 26
Ofgem
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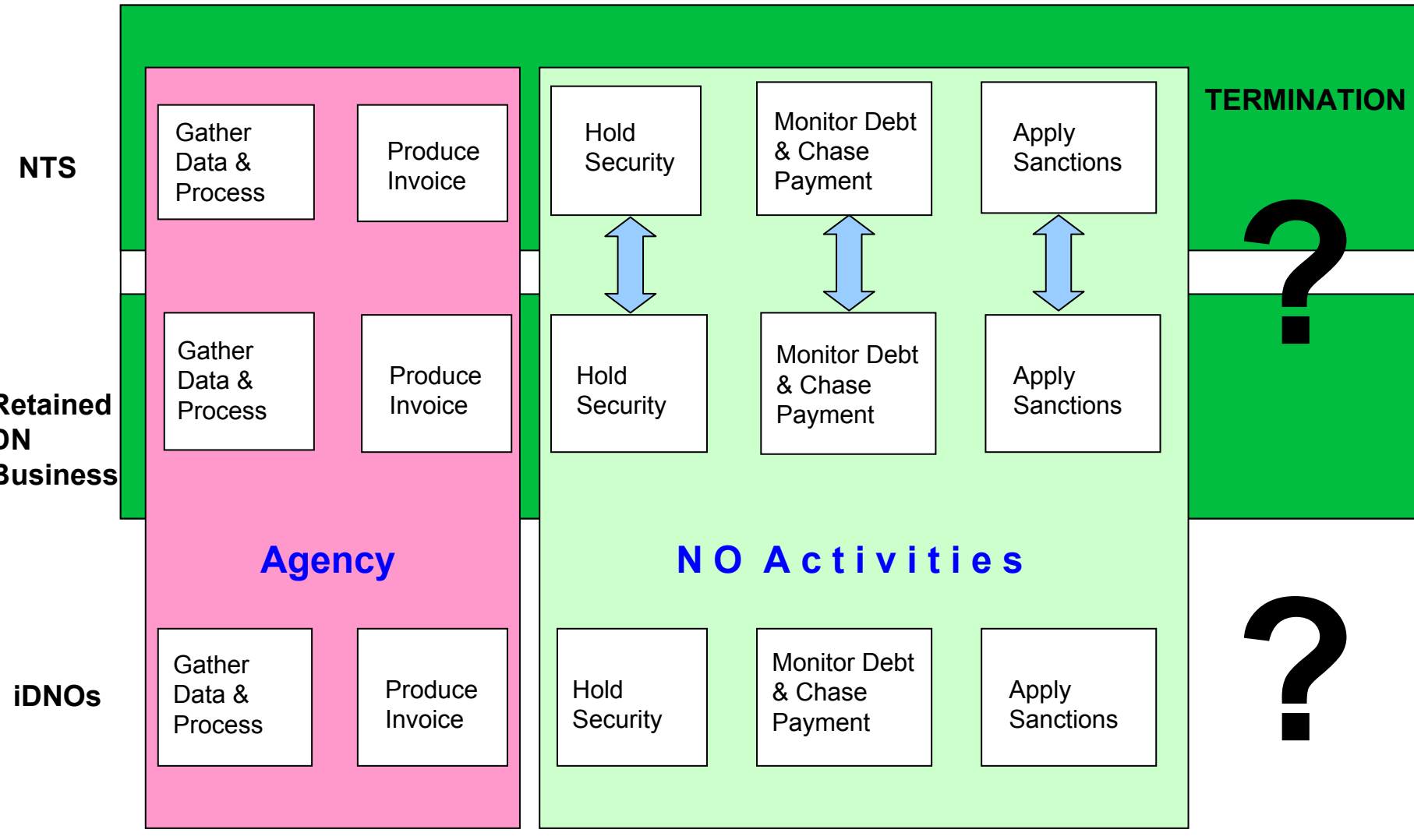
Alan Raper

National Grid Transco

Invoicing & Credit Activity Blocks



What are the options?

- One-out-all-out
  - Where a shipper is in default, (usually, but not exclusively, for financial reasons), any one of the UNC transporters could trigger a system wide termination
  - A termination by one transporter would be considered to be a default against all other transporters

- One-by-one
  - A transporter could only terminate a shipper from its network

Option 1
One-out-all-out

(1) Advantages

(1) Results in decisive, coordinated action

(2) Mirrors the situation that exists now

(3) Sits well with SOLR

(4) Simple principle, easily implemented

(2) Disadvantages

(1) Each Transporter forced into action at the pace of the fastest

(2) Portfolios are not always uniformly distributed across all networks and any disproportionate exposure would not be taken into account

(3) Introduces a mandatory element into the termination rules that currently does not exist

Option 2
One-by-one

(1) Advantages

(1) Ring-fences behaviours relating to risk with consequences

(2) Aligns decisions relating to default with other credit chain activities

(3) Precipitate action avoided

(2) Disadvantages

(1) Messy – obligations relating to NTS (and balancing) retained but not on the terminating network

(2) Does not sit well with SOLR process – SOLR is a national process that relies on Supplier licence revocation (or potential revocation)

(3) Would require systems work to facilitate partial SOLR (if introduced) or portfolio depopulation

(4) May accelerate divergence of credit arrangements as iDNs may perceive they are at greater risk of not being paid if a shipper is in distress.

Points to Note

(1) A shipper can not be a shipper without access to NTS

(2) A NTS termination would result in an Option 1

(3) An energy termination would result in Option 1

(4) Most defaults would tend to Option 1, as most are driven by financial failure and this would affect all networks

Recommendation

(1) This presentation re-outlines the pros & cons of the options available

(2) Transco has supported both options over time

(3) Consensus in DISG and UNC Dev Forum proving difficult but …

(4) …… need to progress a solution

(5) Transco want the most sustainable solution but recognises that a shipper or transporter could propose another solution

(6) No recommendation but …

(7) …… tending to Option 1, particularly if general support forthcoming from DISG

Views …….