










UNC Workgroup Report		At what stage is this document in the process?
<h1>UNC 0605S:</h1> <h2>Amendments to TPD Section K - Additional Methods to Procure and Dispose of Operating Margins Gas</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></p> <p>This modification seeks to enable National Grid NTS to procure and dispose of Operating Margins Gas in a more efficient and economical way.</p>		
	<p>The Workgroup recommends that this modification should:</p> <ul style="list-style-type: none"> <li>be subject to self-governance procedures</li> <li>be further assessed by a Workgroup</li> </ul> <p>The Panel will consider this Workgroup Report on <b>16 February 2017</b>. The Panel will consider the recommendations and determine the appropriate next steps.</p>	
	High Impact: None	
	Medium Impact: None	
	Low Impact: Shippers and National Grid NTS	

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<b>Modification timetable:</b>		
Initial consideration by Workgroup	05 January 2017	
Amended Modification considered by Workgroup	02 March 2017	
Workgroup Report presented to Panel	20 April 2017	
Draft Modification Report issued for consultation	20 April 2017	
Consultation Close-out for representations	11 May 2017	
Final Modification Report available for Panel	12 May 2017	
Modification Panel decision	18 May 2017	

## 1 Summary

### What

The UNC currently prescribes that National Grid NTS should run annual tenders in order to purchase and dispose of Operating Margins Gas, which has not changed since the inception of Code. This modification proposes to enable National Grid NTS to use other trading mechanisms in addition to tenders.

### Why

UNC TPD Section K Operating Margins was based on the prevailing market conditions when the Code was created 20 years ago and no longer reflects the current climate. There have been a number of changes to the market conditions such that the number of tenders received has reduced significantly as has the use of Operating Margins Gas. The process has been to accept the highest price tender, irrespective of whether a higher price could be achieved by selling through other routes, e.g. Over The Counter (OTC) or exchange. It is not economic or efficient to limit the way in which the Operating Margins Gas is procured or disposed of. National Grid NTS is obligated under its licence, Special Condition 8C.2, to procure its Operating Margins requirements in an efficient manner. This modification seeks to enable National Grid NTS to procure and dispose of Operating Margins Gas in a more efficient and economical way.

### How

In future National Grid NTS proposes it will look to achieve the best price for procuring and disposing of Operating Margins Gas by having the ability to utilise a range of trading mechanisms which are the Over the Counter (OTC), brokered markets and trading exchanges e.g. ICE Endex in addition to tenders. It will also provide the ability to procure and dispose of gas prior to the end of the Storage Year, as well as at the beginning of the next Storage Year. There will be amendments to conditions within UNC TPD Section K, to facilitate the change in process.

## 2 Governance

### Justification for Urgency, Authority Direction or Self-Governance

Self-Governance was proposed as this modification is seeking change that may result in a minor reduction in costs for Shippers (up to £90k per annum) and an update to the process to be more reflective of the current market; it is therefore unlikely to have a material effect on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed.

There are no material effects based on the self-governance materiality assessment<sup>1</sup>.

### Fast Track Self-Governance Criteria

This modification is not suitable for Fast Track Self-Governance as it is not properly a housekeeping modification required as a result of some error or factual change.

### Requested Next Steps

This modification should:

- be further assessed by a Workgroup

## 3 Why Change?

National Grid NTS purchases Operating Margins (OM) on an annual basis in line with both UNC Section K and obligations described in the National Grid Gas Safety Case in respect of the NTS (the Safety Case). The Safety Case places an obligation on National Grid Gas to maintain OM at levels and locations determined throughout the year.

The OM service is used to maintain system pressures in the period before other system management services become effective (e.g. national or locational balancing actions). A further quantity of OM is also procured to manage the orderly run-down of the system in the event of a Network Gas Supply Emergency.

Where National Grid NTS contracts for Operating Margins Capacity at a gas storage facility, National Grid NTS must purchase gas for injection or transfer into the facility. The Operating Margins requirements at each Operating Margins Facility vary over time resulting in the need to procure additional Operating Margins Gas, dispose of surplus Operating Margins Gas or transfer Operating Margins Gas between different Operating Margins Facilities.

When Operating Margins are utilised, the result is a withdrawal of Operating Margins Gas at an Operating Margins Facility and need to refill the Operating Margins Facility, in preparation for a future Operating Margins event.

Such activities to procure, dispose and transfer Operating Margins Gas are often referred to as “reprofiling”.

UNC TPD Section K Operating Margins was originally based on the prevailing market conditions when the code was created 20 years ago, and no longer reflects the current climate. There have been a number of changes to the market conditions such that the number of tenders received has reduced significantly as has the use of Operating Margins Gas. The current process within UNC TPD Section K limits the method to tenders only that can be used to procure or dispose of gas. The highest price tender has to be accepted, irrespective of whether a higher price could be achieved by selling through other routes e.g. via Over the Counter (OTC) or by using an exchange.

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<sup>1</sup> <http://www.gasgovernance.co.uk/sites/default/files/UNC%20-%20Self%20Governance%20Guidance%20v1.0.pdf>

### **What the drivers are and which parties are impacted**

This Modification seeks to enable National Grid NTS to improve the process to procure and dispose of gas in a more efficient and economical way. The drivers for changing UNC to allow National Grid NTS to use other ways of procuring or selling gas are:

- Process is limited by UNC prescribing that only tenders should be used;
- Less competitive prices offered through tenders versus other options (OTC or exchange) and a reduction in the number of tenders received;
- National Grid NTS licence directs that it operate in an efficient and economical way;
- Benefit to shippers of approximately £30k to £90k per annum which feeds through into the Closing Margins Adjustment Charge (UNC TPD Section K 4.4.5);

The Modification has no impacts on either National Grid NTS or Xoserve systems and the effects on National Grid NTS processes and procedures are negligible.

### **What the effects are should the change not be made**

The Modification provides an improved method to manage the process for the procurement and disposal of Operating Margins Gas. Although, this Modification has a low impact it would benefit as a slightly more economical and efficient operation of the market.

## **4 Code Specific Matters**

### **Reference Documents**

[http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20K%20-%20Operating%20Margins\\_4.pdf](http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20K%20-%20Operating%20Margins_4.pdf)

### **Knowledge/Skills**

No additional skills or knowledge is required to assess this modification.

## **5 Solution**

It is proposed that a change to Code is made to allow National Grid NTS to utilise other methods to procure and dispose of Operating Margins Gas at its own discretion, such as the OTC, brokered markets or trading exchanges. It is also proposed such procurement and disposal of Operating Margins gas be allowed prior to the end of the Storage Year (before the capacity rights reduce or expire) as well as at the beginning of the next Storage Year.

In order to allow National Grid NTS to procure and dispose of gas outside the tender process, amendments are required to UNC TPD Section K Operating Margins conditions:

- 3.3.7 Existing paragraph removed to facilitate changes to the Operating Margins Gas process;
- 3.3.8 Renumbered as 3.3.7 and circular reference to 3.3.7 deleted;
- 3.7.2 (a) to (f) renumbered as 3.7.3 (a) to (f). The new paragraph provides the ability to procure and dispose of Operating Margins Gas by other methods and before the end of the Storage Year;

- 3.7.2 (g) and (h) removed and new 3.7.3. (g) and (h) inserted to facilitate the changes to Operating Margins Gas and allow National Grid NTS to utilise other ways to procure and dispose of Operating Margins Gas;
- 3.7.3 Renumbered as 3.7.4;
- 3.7.4 Deleted, as the new 3.7.3 (h) and the new 3.7.5 describe the process for dealing with Residual Gas Transfers;
- 3.7.5 Renumbered as 3.7.6 and amended to allow Residual Gas Transfers to be conducted other means; and
- 3.7.6. Renumbered as 3.7.7

## 6 Impacts & Other Considerations

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None.

### Consumer Impacts

None - the Workgroup agrees with the proposer's view, as the small potential benefit to shippers of approximately £30k to £90k per annum (0.15% to 0.45% of Operating Margins annual costs), suggests this modification is only going to lead to a negligible benefit to consumers.

### Consumer Impact Assessment

Criteria	Extent of Impact
Which Consumer groups are affected?	<p><i>Please consider each group and delete if not applicable.</i></p> <ul style="list-style-type: none"> <li>• Domestic Consumers</li> <li>• Small non-domestic Consumers</li> <li>• Large non-domestic Consumers</li> <li>• Very Large Consumers</li> </ul>
What costs or benefits will pass through to them?	<p><i>Please explain what costs will ultimately flow through to each Consumer group. If no costs pass through to Consumers, please explain why. Use the General Market Assumptions approved by Panel to express as 'cost per consumer'.</i></p> <p>Insert text here</p>
When will these costs/benefits impact upon consumers?	<p><i>Unless this is 'immediately on implementation', please explain any deferred impact.</i></p> <p>Insert text here</p>

Are there any other Consumer Impacts?	<p><i>Prompts:</i></p> <p><i>Are there any impacts on switching?</i></p> <p><i>Is the provision of information affected?</i></p> <p><i>Are Product Classes affected?</i></p> <p>Insert text here</p>
<b>General Market Assumptions as at December 2016</b> (to underpin the Costs analysis)	
Number of Domestic consumers	21 million
Number of non-domestic consumers <73,200 kWh/annum	500,000
Number of consumers between 73,200 and 732,000 kWh/annum	250,000
Number of very large consumers >732,000 kWh/annum	26,000

## Cross Code Impacts

None.

## EU Code Impacts

None.

## Central Systems Impacts

The systems required for the tender process and sale of gas are already in place via the exchange or OTC. Therefore, there are no systems changes required only minor amendments to the process for reprofiling and SMPS by National Grid NTS.

## Workgroup Impact Assessment

<b>User Pays</b> (Workgroup assessment of proposer initial view or subsequent information)	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.	Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	Not applicable

## 7 Relevant Objectives

Impact of the modification on the relevant objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

This modification would further relevant objective (c) Efficient discharge of the licensee's obligations, because it will enable National Grid NTS to deliver an efficient and economical solution for reprofiling Operating Margins Gas in storage as per its licence condition.

## 8 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

## 9 Legal Text

### Text Commentary

Paragraph	Explanation
Deleted paragraph 3.3.7	Deleting this paragraph means that National Grid NTS is no longer required to purchase Operating Margins Gas through a tender. National Grid NTS may choose to run a tender, with the additional flexibility to purchase gas on a trading exchange, over-the-counter (OTC) or brokered markets.
Existing paragraph 3.3.8 renumbered as 3.3.7	The reference to existing 3.3.7 is removed as the requirement to tender under existing 3.3.7 will no longer exist.
Paragraph 3.7.2	The existing language requires NG to conduct a tender before it disposes of Operating Margins gas. The amended wording requires that, consistent with its Licence obligations, NG disposes of Operating Margins Gas in the way in which it considers most economic. As is the case with purchase, National Grid NTS will then have the flexibility to sell on an exchange, or over-the-counter. The amended language also allows National Grid NTS to procure or dispose of Operating Margins Gas before the end of the Storage Year, to reflect the normal practise of making the disposals before the capacity rights reduce or expire.
Amend the remainder of existing paragraph 3.7.2 as 3.7.3	<p>The new 3.7.3 explains that, where National Grid NTS considers a tender is most economic, the provisions that follow will apply to that tender.</p> <p>Paragraphs 3.7.2 (a) to (f) have been renumbered as 3.7.3 (a) to (f).</p> <p>New 3.7.3 (g) provides that National Grid NTS need not accept the highest or any tender and mirrors paragraph 3.3.6(c), which applies to buy tenders. It replaces existing (g) which required that National Grid NTS accepts the highest priced tender(s) first.</p> <p>New 3.7.3 (h) provides that any gas unsold following a tender may be sold by other means. It replaces existing (h) which dealt with how tenders would be accepted but was unnecessarily prescriptive.</p>
Existing paragraph 3.7.3 renumbered as 3.7.4	No text change.
Existing paragraph 3.7.4 and new 3.7.5	Existing 3.7.4 is deleted and is, in part, dealt with in new 3.7.3 (h) – see above. The cost recovery element of existing 3.7.4 is dealt with in a new 3.7.5.
Existing paragraph	This is amended to reflect that fact that Residual Gas Transfers may be

3.7.5 renumbered as 3.7.6	made otherwise than by tender.
Existing paragraph 3.7.6 renumbered as 3.7.7	No text change.

## Legal Text

### UNC TPD Section K

*Delete existing paragraph 3.3.7:*

~~3.3.7 National Grid NTS will make its Margins Gas Procurement Arrangements for material quantities of gas under paragraph 3.3.5 on the basis in paragraph 3.3.6(c) where reasonably feasible in the circumstances (and having regard to the time or times for delivery of such gas); and in any case where such arrangements are not made on such basis agrees to inform Users of the circumstances in which its arrangements were not so made.~~

*Renumber existing paragraph 3.3.8 as 3.3.7, and amend to read as follows:*

~~3.3.8~~ 3.3.7 Without prejudice to paragraph ~~3.3.7~~, National Grid NTS may procure gas (in accordance with paragraph 3.6) for Operating Margins Purposes and on behalf of the NTS Shrinkage Provider on an integrated basis; but National Grid NTS shall in any event maintain separate records of the quantities of gas procured for Operating Margins Purposes and the NTS Shrinkage Provider.

*Amend the lead in to existing paragraph 3.7.2 to read as follows:*

3.7.2 National Grid NTS on behalf of each Relevant System Manager will before, or as soon as reasonably practicable after, the start of each Storage Year make such arrangements for, ~~as soon as reasonably practicable after the start of the Storage Year, seek to make~~ Residual Gas Transfers as it shall determine to be the most economic for the discharge of its functions under this Section K. ~~in respect of the Residual Surplus Gas in each relevant Storage Facility or LNG Importation Facility by conducting a tender as follows:-~~

*Amend the remainder of existing paragraph 3.7.2 as follows by making it paragraph 3.7.3 and by adding the following highlighted text to the lead in; and by deleting existing paragraphs (g) and (h) and replacing them with new paragraphs (g) and (h) (as highlighted):*

3.7.3 Where National Grid NTS, with a view to meeting the objectives in paragraph 3.7.2, conducts a tender:

- ~~(g) National Grid NTS will accept bids in order of price (the highest priced being accepted first) for the whole of the quantity specified in each bid (subject to paragraph (h)) until it has accepted bids for that amount of gas equal to the difference between the aggregate remaining surpluses and the aggregate remaining deficits as determined by National Grid NTS in accordance with 3.6.4 (provided that National Grid NTS shall not be required to accept bids for Residual Surplus Gas at a relevant Storage Facility or LNG Importation Facility in excess of the amount of Residual Surplus Gas at such relevant Storage Facility or LNG Importation Facility);~~
- ~~(h) the last bid (for the lowest price) accepted may be accepted for a part of the quantity specified in the bid, and if more than one such bid has the same price such bids will be accepted pro rata the amounts of each, disregarding any bid which states that it~~

~~may only be accepted for the whole of the specified quantity.~~

- (g) National Grid NTS shall not be required to accept the highest priced or any bid where in its reasonable opinion a prudent seller of gas in comparable circumstances would not do so; and
- (h) if after the tender the Residual Surplus Gas, or any part of it, is unsold, National Grid NTS (on behalf of Relevant System Managers) will take such other reasonable action as it shall think fit to dispose thereof.

*Renumber existing paragraph 3.7.3 as 3.7.4 and there are no changes to the text.*

*Delete existing paragraph 3.7.4:*

~~3.7.4 If after the tender under paragraph 3.7.2 there is any remaining Residual Surplus Gas, National Grid NTS (on behalf of Relevant System Managers) will take such other reasonable action as it shall think fit to dispose thereof (it being apparent that no User is willing at any price to enter into a Storage Gas Transfer thereof); and any reasonable costs incurred by National Grid NTS in so doing (including costs incurred by reason of having gas in storage in excess of its Storage Space or LNG Importation Space) shall be costs of the Relevant System Manager for the purposes of this Section K.~~

*Insert new paragraph 3.7.5 to read as follows:*

3.7.5 Reasonable costs incurred by National Grid NTS in making Residual Gas Transfers (including costs incurred by reason of having gas in storage in excess of its Storage Space or LNG Importation Space) shall be costs of the Relevant System Manager for the purposes of this Section K.

*Renumber existing paragraph 3.7.5 as 3.7.6, and amend to read as follows:*

~~3.7.5~~ 3.7.6 Where more than one Relevant System Manager holds Residual Surplus Gas in a Storage Facility or LNG Importation Facility, the gas-in-storage subject to Residual Gas Transfers and the proceeds of the ~~tender under paragraph 3.7.2 and any costs under paragraph 3.7.4~~ Residual Gas Transfers will be apportioned pro rata their respective quantities of Residual Surplus Gas in the facility.

*Renumber existing paragraph 3.7.6 as 3.7.7 and there are no changes to the text.*

## 10 Recommendations

### Workgroup's Recommendation to Panel

The Workgroup invites the Panel to:

- Agree that this modification should be returned to workgroup for further assessment.

The workgroup concluded that an additional 2 months assessment is required to undertake analysis to further determine the probability of a trading error being made by National Grid NTS and the appropriateness of any costs incurred in such an event being borne by Shippers. It is expected that this work will inform the final solution and/or the impacts of it on parties.