

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 style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </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: <i>(delete as appropriate)</i></p> <ul style="list-style-type: none"> <li>• be subject to self-governance procedures</li> <li>• be further assessed by a Workgroup</li> <li>• proceed to Consultation.</li> </ul> <p>The Panel will consider this Workgroup Report on <b>19 January OR 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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Timetable		 0121 288 2107
<b>Modification timetable:</b>		Proposer: <b>Debbie Brace</b> <b>National Grid NTS</b>
Initial consideration by Workgroup	05 January 2017	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
Workgroup Report presented to Panel	19 January 2017	 <a href="mailto:deborah.brace@nationalgrid.com">deborah.brace@nationalgrid.com</a>
Draft Modification Report issued for consultation	19 January 2017	 01926 653233
Consultation Close-out for representations	10 February 2017	Transporter: <b>National Grid NTS</b>
Final Modification Report available for Panel	13 February 2017	
Modification Panel decision	16 February 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 it is proposed that National Grid NTS 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 OTC and OCM, in addition to tenders. There will be small 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.

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

## Requested Next Steps

This modification should: *(delete as appropriate)*

- be subject to self-governance
- be assessed by a Workgroup
- proceed to Consultation

Rationale for requested next steps inserted here

## 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.

### 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 minor 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 exchange or OTC to allow the existing process to become fit for purpose.

In order to allow National Grid NTS to procure and dispose of gas outside the tender process, amendments are expected to be required to UNC TPD Section K Operating Margins conditions 3.3.7, 3.7.2 (g) and 3.7.4.

## **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, 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 (to underpin the Costs analysis)</b>	
<i>Number of Domestic consumers</i>	<i>21 million</i>
<i>Number of non-domestic consumers &lt;73,200 kWh/annum</i>	<i>500,000</i>
<i>Number of consumers between 73,200 and 732,000 kWh/annum</i>	<i>250,000</i>
<i>Number of very large consumers &gt;732,000 kWh/annum</i>	<i>26,000</i>

## 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

The Workgroup agreed with the Modification Panels determination on Self-Governance as the modifications potential reduction in costs for Shippers (up to £90k per annum) and update to the process (to be more reflective of the current market) is unlikely to have a material impact on competition.

<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;	None

(ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	
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

Legal Text has been provided by National Grid NTS and is included below.

The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

### Text Commentary

#### UNC TPD Section K

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 an exchange or over-the-counter.
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

	<p>Licence obligations, NG disposes of Operating Margins gas in the way in which it considers most economic. As is the case with purchase, NG will then have the flexibility to sell on an exchange, or over-the-counter.</p> <p>Paragraphs 3.7.2 (a) to (h) have been deleted.</p>
Insert new paragraph 3.7.3	<p>The new 3.7.3 explains that, where NG 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) in their entirety.</p> <p>New 3.7.3 (g) provides that NG 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 NG 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 3.7.4 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 3.7.5 renumbered as 3.7.6	This is amended to reflect that fact that Residual Gas Transfers may be made otherwise than by tender.
Existing paragraph 3.7.6 renumbered as 3.7.7	No text change.

## 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 existing paragraph 3.7.2 to read as follows:

3.7.2 National Grid NTS on behalf of each Relevant System Manager will in or after the 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:~~

- ~~(a) National Grid NTS will issue a tender document to all Users specifying the aggregate amount of Residual Surplus Gas in each Storage Facility or LNG Importation Facility and inviting each User to bid a price at which it would be willing to enter into a Residual Gas Transfer in respect of a quantity of gas, to be specified by such User, not exceeding the aggregate amount of the Residual Surplus Gas in each Storage Facility or LNG Importation Facility;~~
- ~~(b) the terms of the tender document (including the tranches of Residual Surplus Gas, if any, for which bids may be made, the times at or periods within which bids are to be made and accepted, the times at or periods within which Residual Gas Transfers will be made, and the terms of payment by Users whose bids are accepted) will be determined by National Grid NTS;~~
- ~~(c) a bid submitted by a User pursuant to the tender document shall be an offer capable of acceptance by National Grid NTS, and may not be made conditional (save as to any condition provided for in the tender document) in any respect;~~
- ~~(d) any bid shall be capable of acceptance as to all, or (for the purpose of paragraph (g), and unless the User expressly states otherwise) any part of the quantity specified by the User;~~
- ~~(e) the terms of the tender document will set out the basis on which Residual Gas Transfers are to be made pursuant to an accepted bid, and may authorise National Grid NTS to make such a Residual Gas Transfer on behalf of any User;~~
- ~~(f) the tender document:
  - ~~(i) will not (but without prejudice to paragraph 3.7.6) provide for any reserve price below which bids would not be accepted;~~
  - ~~(ii) may (where it provides for alternative times or forms of Residual Gas Transfer, and/or offers Residual Surplus Gas in more than one Storage Facility or LNG Importation Facility, at the bidding User's option) provide for adjustments to the bid price payable by a User (in respect of a bid accepted by National Grid NTS in accordance with paragraph (g)) to reflect different costs incurred (as a result of the option chosen by the User) by Relevant System Managers (or National Grid NTS on their behalf) in making the Residual Gas Transfer and/or (where paragraph 3.7.6 applies) in Margins Gas Procurement Arrangements;~~~~
- ~~(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.~~

*Insert new paragraph 3.7.3 to read as follows:*

- 3.7.3      Where National Grid, with a view to meeting the objectives in paragraph 3.7.2, conducts a tender:
- (a) National Grid NTS will issue a tender document to all Users specifying the aggregate amount of Residual Surplus Gas in each Storage Facility or LNG Importation Facility and inviting each User to bid a price at which it would be willing to enter into a Residual Gas Transfer in respect of a quantity of gas, to be specified by such User, not exceeding the aggregate amount of the Residual Surplus Gas in each Storage Facility or LNG Importation Facility;
  - (b) the terms of the tender document (including the tranches of Residual Surplus Gas, if any, for which bids may be made, the times at or periods within which bids are to be made and accepted, the times at or periods within which Residual Gas Transfers will be made, and the terms of payment by Users whose bids are accepted) will be determined by National Grid NTS;
  - (c) a bid submitted by a User pursuant to the tender document shall be an offer capable of acceptance by National Grid NTS, and may not be made conditional (save as to any condition provided for in the tender document) in any respect;
  - (d) any bid shall be capable of acceptance as to all, or (for the purpose of paragraph (g), and unless the User expressly states otherwise) any part of the quantity specified by the User;
  - (e) the terms of the tender document will set out the basis on which Residual Gas Transfers are to be made pursuant to an accepted bid, and may authorise National Grid NTS to make such a Residual Gas Transfer on behalf of any User;
  - (f) the tender document:
    - (i) will not (but without prejudice to paragraph 3.7.6) provide for any reserve price below which bids would not be accepted;
    - (ii) may (where it provides for alternative times or forms of Residual Gas Transfer, and/or offers Residual Surplus Gas in more than one Storage Facility or LNG Importation Facility, at the bidding User's option) provide for adjustments to the bid price payable by a User (in respect of a bid accepted by National Grid NTS in accordance with paragraph (g)) to reflect different costs incurred (as a result of the option chosen by the User) by Relevant System Managers (or National Grid NTS on their behalf) in making the Residual Gas Transfer and/or (where paragraph 3.7.6 applies) in Margins Gas Procurement Arrangements;
  - (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 to read as follows:*

~~3.7.3~~ 3.7.4 A Relevant System Manager will not transfer or surrender Storage Capacity or LNG Importation Capacity when making Residual Gas Transfers in respect of Residual Surplus Gas.

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 A Relevant System Manager will not transfer or surrender Storage Capacity or LNG Importation Capacity when making Residual Gas Transfers in respect of Residual Surplus Gas.

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 to read as follows:

~~3.7.6~~ 3.7.7 National Grid NTS may provisionally determine the amount of the Residual Surplus Gas for the purposes of the tender document under paragraph 3.7.2 before determining (under paragraph 3.6.4) the amount of Carry-Across Gas in which case:

- (a) the.....; and
- (b) the.....to such tender.

## 10 Recommendations

### Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This self-governance modification should proceed to consultation.
- This proposal requires further assessment and should be returned to Workgroup.