

COMMERCIAL BUSINESS RULES

**System Operator Trading Error in respect of Procurement or
Disposal of Gas for Operating Margins Services**

(UNC Modification Proposal 0605S)

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1. Introduction

1. These Business Rules describe the process for determination of a trading error by National Grid (as System Operator of the National Transmission System (NTS)) in respect of the procurement or disposal of gas intended to satisfy National Grid's obligations in respect of Operating Margins provision.
2. In the event that it is determined a qualifying trading error has occurred, the rules describe how such an error is addressed and if appropriate, adjustments made in the consequential cost allocation processes prescribed by UNC TPD Section K.
3. These rules have been specifically developed to describe the 'trading error' aspect of UNC Modification Proposal 0605S '*Amendments to TPD Section K - Additional Methods to Procure and Dispose of Operating Margins Gas*'. They are provided to assist the Workgroup's discussions and do not constitute legal text.

Operating Margins Summary

4. Operating Margins is a service required by the System Operator in order to reduce the likelihood of an emergency on the NTS or in the event of an emergency, to ensure the safety of all users on the Total System.
5. Operating Margins gas is used to maintain NTS pressures in the immediate period following operational stresses and before market balancing measures become effective. Such stresses may result from supply failure, unanticipated demand changes or failure of an NTS pipeline or associated equipment. A quantity of Operating Margins gas is also procured to manage the orderly run-down of the System in the event of a Network Gas Supply Emergency (NGSE) whilst firm load shedding takes place. Operating Margins is provided by storage facilities, Liquefied Natural Gas (LNG) importation facilities, offtake reduction and supply increase services.
6. National Grid currently has the ability to procure Operating Margins gas in the form of gas held in storage or as a deliverability option from either a demand side (turn down) provider or from a supply increase (turn up) provider. Current providers are:
 - Natural Gas Storage Facilities;
 - Liquefied Natural Gas (LNG) Storage Facilities; and
 - Liquefied Natural Gas (LNG) Importation Facilities with Storage.
 - NTS directly connected loads, (i.e. Power stations)
7. The UNC currently prescribes that National Grid NTS run annual tenders in order to procure and dispose of Operating Margins gas. However, UNC Modification Proposal 0605S advocates the additional option for National Grid to utilise a range of trading mechanisms (for example, Over the Counter (OTC), brokered markets and trading exchanges) in order to seek to achieve the 'best' price in the aforementioned procurement and disposal activities.

2. Process

Definition

8. An “**Operating Margins Trading Error**” occurs where, in respect of a trade for Operating Margins gas procurement or disposal (executed by National Grid), it is identified by National Grid *ex post* that one or more of the following elements of the transaction were not consistent with the intention of the National Grid representative executing the trade:
 - 8.1. The trade **gas price** is different to that which the National Grid representative intended to be the gas price for the applicable trade; or
 - 8.2. The trade **gas volume** is different to that which the National Grid representative intended to be the gas volume for the applicable trade; or
 - 8.3. The relevant trade **date** (or **range of dates**) is different to that which the National Grid representative intended to be the relevant date (or range of dates) for the applicable trade.

National Grid Obligations in the Event of an Error

9. Where National Grid has identified the occurrence of an Operating Margins Trading Error, as soon as reasonably practicable it will seek cancellation of the relevant trade, or revision or correction of the executed Trade Parameters, to the extent permitted under the relevant Trading System Operator terms and/or policies and/or as agreed by the trading counterparty.
10. Where the actions described in paragraph 9 are not possible, National Grid will undertake trading activity to limit the value of, or rectify, the error.
11. Where further to paragraph 9 the Trading System Operator and/or trading counterparty (as appropriate) permits:
 - 11.1. cancellation of the trade, or revision of all the executed Trade Parameters equal to those intended by National Grid, no Error Value Determination will be made in accordance with paragraph 12 or 13, nor any adjustment made in accordance with paragraph 15 or 16; or
 - 11.2. revision of the executed Trade Parameters, but nonetheless to values *not* equal to those intended by National Grid, the revised Trade Parameters will constitute amended executed Trade Parameters.

Error Value Determination

12. Where the Operating Margins Trading Error is attributable to the circumstances identified in paragraph 8.1, the value of the error is the difference between:
 - 12.1. the intended gas price multiplied by the executed gas volume; and
 - 12.2. the executed gas price multiplied by the executed gas volume
13. Where the Operating Margins Trading Error is attributable to the circumstances identified in paragraphs 8.2 or 8.3, the value of the error is the difference between:
 - 13.1. the intended revenue/cost (determined on the basis of the intended Trade Parameters); and

- 13.2. the net revenue/cost from the trading activities (determined on the basis of the executed Trade Parameters) following any action taken in line with paragraph 10.

Adjustment Mechanism

14. Where the value of the error determined in accordance with paragraph 12 or 13 is less than £50,000 (per occurrence), no adjustments (described in paragraphs 15 and 16) will be made.
15. In respect of Operating Margins gas procurement, for the purposes of the determination of Operating Margins WACOG (as defined in UNC TPD K4.2.1) the intended Trade Parameters will be applied (subject to an absolute cost cap in respect of each Storage Year of £1,000,000, see Appendix 2).
16. In respect of Operating Margins gas disposal, where:
 - 16.1. the value determined in accordance with paragraph 12.1 exceeds the value determined in accordance with paragraph 12.2, or the value determined in accordance with paragraph 13.1 exceeds the value determined in accordance with paragraph 13.2, the Closing Margins Adjustment Charge (calculated as per UNC TPD K4.4.5) shall be decreased by the aggregate value of any such errors occurring within the Storage Year;
 - 16.2. the value determined in accordance with paragraph 12.1 is less than the value determined in accordance with paragraph 12.2, or the value determined in accordance with paragraph 13.1 is less than the value determined in accordance with paragraph 13.2, the Closing Margins Adjustment Charge (calculated as per UNC TPD K4.4.5) shall be increased by the aggregate value of any such errors occurring within the Storage Year; and
17. Adjustments to the Closing Margins Adjustment Charge in any Storage Year will be subject to a cap of £1,000,000 (in terms of absolute costs i.e. regardless of whether the value increases or decreases the Closing Margins Adjustment Charge).

Reporting

18. National Grid will detail any Operating Margins Trading Errors (that are identified within the Formula Year) within its annual Procurement Guidelines Report (published in accordance with Special Condition 8A of the National Grid NTS Gas Transporter Licence).
19. In respect of each Operating Margins Trading Error detailed in accordance with paragraph 18, the following information will be provided:
 - 19.1. Trading System;
 - 19.2. Trade Execution Time and Date;
 - 19.3. Operating Margins Trading Error Identification Date;
 - 19.4. Executed Trade Parameters;
 - 19.5. Intended Trade Parameters (i.e. those Trade Parameters expected or intended by the National Grid representative when executing the trade);
 - 19.6. Details of any actions taken in accordance with paragraph 9 or 10;

19.7. Value of the error determined in accordance with paragraph 12 or 13; and

19.8. Details of any adjustments made in accordance with paragraph 15 or 16;

Definitions

20. '**executed**' means (in the context of Trade Parameters or cost/revenue) the values (confirmed by the Trading System Operator) at which the trade was concluded;
21. '**intended**' means (in the context of Trade Parameters or cost/revenue) the values at which the National Grid representative intended to strike a trade;
22. '**Trade Parameters**' means the trade price, trade volume and the delivery date (or range of delivery dates) for the relevant gas trade;

3. Appendix 1

Example of rectification activity described in paragraph 10:

Event	Trade Date	Volume	Unit Price	Cost (revenue)	Notes
Disposal Requirement	N/A	-100,000			
Initial Executed Trade (Disposal)	31-Mar-17	-1,000,000	£0.25	-£250,000	Extra '0' unintentionally added in 'volume' field by trader
Rectification Trade (Procurement)	1-Apr-17	900,000	£0.26	£234,000	Market movement (upwards) leads to increased costs to repurchase 'oversold' volume
Net Cost (Revenue)		-100,000	£0.16	-£16,000	The actual revenue from the disposal based on net trade revenue from the initial and rectification trades
Intended cost (Revenue)		-100,000	£0.25	-£25,000	The revenue that would have been recovered if the Initial Executed Trade was correct
Value of the Error				£9,000	The revenue reduction attributable to the error (i.e. instead of 25p/unit, 16p/unit was recovered)

Example of operation of cap on WACOG adjustment described in paragraph 15:

Trade	Volume	Price	Cost
Actual	5,000,000	0.5	£2,500,000
Intended	5,000,000	0.25	£1,250,000

Error Value	NG cap	WACOG value
£1,250,000	£1,000,000	£1,500,000