Stage 01: Modification

At what stage is this document in the process?

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

0560:

Addressing under-allocation of flows from BBL arising from misalignment of reference conditions

This proposal seeks to enable a reconciliation payment to Shippers who will lose the value of their gas as a result of misalignment of reference conditions between BBL and the NTS.

The Proposer recommends that this modification should be

- assessed by a Workgroup

High Impact:
Insert impact

Medium Impact:
Insert impact: Material under-allocation of gas flows for BBL Shippers

Low Impact:
Insert impact

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About this document:

This modification will be presented by the proposer to the panel on 15th October 2015

The panel will consider the proposer's recommendation and agree whether this modification should be:

- referred to a workgroup for assessment.

The Proposer recommends the following timetable:

Initial consideration by Workgroup	5 November 2015
Amended Modification considered by Workgroup	3 December 2015
Workgroup Report presented to Panel	17 December 2015
Draft Modification Report issued for consultation	18 December 2015
Consultation Close-out for representations	13 January 2016
Final Modification Report presented to Panel	14 January 2016
UNC Modification Panel decision	21 January 2015

Any questions?

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1 Summary

Is this a Self-Governance Modification?

It is not proposed that this should not be a self-governance modification, since it is likely 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 through pipes.

Is this a Fast Track Self-Governance Modification?

No, since it is not proposed as a self-governance modification, nor it is properly a housekeeping modification as result of some error or factual change.

Why Change?

From 1st October 2015, there will be a misalignment of reference conditions between BBL and the NTS. BBL is implementing 0/25 reference conditions as part of its implementation of EU-required changes to the nominations process, whereas National Grid NTS is not implementing this requirement until 1st April 2016. As a result, Shippers bringing gas in to the Bacton EU IP via BBL will be under-allocated. This will cause a loss of (the value of) the under-allocated gas for the Shippers concerned, until such time as National Grid implements the systems solution for Modification 519 – Harmonisation of Reference Conditions at Interconnection Points.

Solution

It is proposed that there should be a reconciliation to BBL Shippers to reflect the value of the under-allocation. This would be accomplished via an adjustment to energy balancing neutrality.

The modification would be an addition to the text of the transition arrangements for the implementation of the European Interconnection Document (EID), which is appropriate for a one-off step associated with the transition.

Relevant Objectives

The modification would support relevant objective g), by enabling full compliance with the objective of the Balancing Network Code, to enable network users to have certainty that they can trade across balancing zones in an economically efficient and non-discriminatory manner.

The modification would support relevant objective c) by enabling efficient discharge of the licensees obligations to co-ordinate with adjacent TSOs and not to discriminate between network users, and to the extent that this also supports effective competition, this would also support relevant objective d).

Implementation

No specific date for implementation is proposed. However it would be beneficial if this modification could be implemented prior to 1st April 2016, such that reconciliation can take place within [1 month][2months] of the implementation of systems for Modification 0519.

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

This modification will not have any impact on an SCR or any other industry change projects

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2 Why Change?

Background

The EU Interoperability Code requires harmonisation of reference temperature conditions at 0/25 (0° for volume/25° for CV) at Interconnection Points, whereas the commercial operation of the NTS is carried out using 15/15 (15° for volume/15° for CV) reference conditions.

National Grid NTS raised Modification 0519 to address this requirement, and it has now been implemented. Modification 0519 ring fences the implementation of 0/25 conditions on the NTS to Bacton EU IP, and will only take effect with effect from 1st April 2016, when National Grid NTS is due to deliver a systems solution. *[NB We understand there may be a delay to 1st May 2016 for this implementation].*

BBL is implementing 0/25 conditions as part of its systems package for EU-compliant nominations processing and matching, with effect from 1st October 2015.

As a result, there will be a misalignment of reference conditions for gas flows entering the NTS via BBL until the Modification 0519 solution is implemented.

Impacts of the Misalignment

A quantity of energy expressed at 15/15 conditions is marginally greater than at 0/25 conditions (with a ratio of c. 1:0.9990).

As a result of the implementation of nominations matching at BBL, nominations for a quantity of gas on the NTS side will be reduced to match the BBL nomination (the BBL-side nomination prevails in order for BBL to align nominations with those at Julianadorp).

Shippers will be allocated (at NTS Entry) as per their prevailing confirmed quantity (their final confirmed nominations i.e. as matched by BBL at 0/25) because of the 'allocate as nominate' rules which are to be applied.

The Modification 0519 solution will apply a 'balancing allocation' to correct Shippers allocations under the UNC, such that they are allocated the full value of the gas coming in to the system.

In the absence of the Modification 0519 solution, Shippers will be under-allocated (by 0.1%) and effectively lose the value of that gas in the process.

BBL Shippers have assessed the materiality of the under-allocation, using last year's BBL flows from October '14 to April '15, (data from National Grid's website) and day-ahead prices from Heren, and it equates to [£700,160].

The under-allocation means that each Shipper will have an imbalance position arising as a result. Whilst Shippers could correct for the imbalance by bringing an additional quantity of gas to the NTS, or by purchasing the additional gas (at SAP) within the NBP, the issue is a direct consequence of the misalignment of reference conditions, and it is not appropriate that these additional costs should be borne by BBL Shippers.

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3 Solution

Outline Solution

It is proposed that once the permanent systems solution to the misalignment of reference conditions (as set out in Modification 0519) has been implemented (currently planned for 1st April 2015), National Grid NTS should calculate the value of the under-allocation for all BBL Shippers for the period (using the same conversion factor as specified in Modification 0519) and make adjustments to energy balancing neutrality as further set out below.

National Grid NTS should, within [1 month][2 months] following the date of implementation of the systems solution for Modification 0519:-

- calculate what the BBL allocations for each Shipper would have been, had they been made at 15/15, for each day in the period from 1st October 2015 until the date of implementation of the systems solution for Modification 0519 ('the period')
    - i.e. the Nominated Quantity in their final prevailing Confirmed Nominations at the end of the gas day, multiplied by the conversion factor used in modification 519, F = (1 / 0.9990)
- calculate the difference between that figure and the Shippers' actual allocations (i.e. UDQI, determined at 0/25 as a result of the OBA with BBL) for each day in the period
- multiply the quantity by SAP, and sum across all days in the period, to calculate the reconciliation value for each affect Shipper
- perform energy balancing invoice adjustments in accordance with section S [1.8 and 1.10?], adjusting the neutrality amounts, such that BBL Shippers are returned the value of the under-allocated gas at SAP (i.e. their 'over-payment' of imbalance charges) as a monthly adjustment to their neutrality invoice.

Modification to the Transition Document (Both Options)

It is proposed that this solution should be contained in the Transition Document Part VA, as an addition to paragraph 2, which relates to the implementation date of the Modification 0519 solution for reference conditions. This would enable this reconciliation to be completed as a 'one-off' transaction, which is appropriate in this period of transition to the new reference conditions regime.

User Pays	
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*

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Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	*Not applicable*

4 Relevant Objectives

This section will be completed following workgroup discussion

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	TBC
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.	TBC
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.	Positive *(to the extent that non-discrimination contributes to effective competition)*
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.	Positive

Outline for discussion – for further development in workgroup

Relevant Objective c): This modification will support compliance with relevant objective c) by enabling National Grid NTS to efficiently fulfil its obligations to co-ordinate with other TSOs at Interconnection Points because it provides a practical solution for the misalignment of reference conditions (which National Grid is required to co-ordinate with adjacent TSOs) which, if left unresolved, will cause unreasonable costs to one particular set of Users only.

It will also enable National Grid NTS to efficiently fulfil its obligations not to discriminate between Users, and to the extent that this also contributes to effective competition, this further supports relevant objective d).

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Relevant Objective g): This modification will support compliance with a key objective of the Balancing Network Code (EU312/2014), Recital 2 which states that:

"In order to move towards greater market integration, it is important that rules on gas balancing of transmission networks facilitate gas trading across balancing zones thus contributing towards the development of market liquidity. This Regulation therefore sets out harmonised Union-wide rules on balancing that have the objective to give network users the certainty that they can manage their balance positions in different balancing zones throughout the Union in an economically efficient and non-discriminatory manner."

If Users at one Interconnection Point face a loss of value of their gas through a simple administrative misalignment of reference conditions, this would not constitute having 'the certainty that they can manage their balance positions…in an economically efficient and non-discriminatory manner'. Affected Users would be both losing money and being discriminated against, and so this objective of the Balancing Code would not be being complied with.

5 Implementation

The proposer believes that the implementation costs should be minimal, as it simply requires a one-off adjustment of [energy balancing neutrality][the Shrinkage Provider account].

Therefore there will be no requirement for new/permanent systems, and as such, the proposer believes that there should be no formal implementation costs associated with this proposal.

No specific implementation date is proposed, but it would be beneficial if this modification (which would be a modification to the EID Transition Document Part VA, Section 2) could be implemented prior to 1st April 2016, such that it can take effect with reference to the date on which the provisions of EID Section A1.5 become effective (EID Section A Transition Document Part VA, section 2.2) (i.e. the reconciliation would be made [1 month][2months] after Modification 0519 systems come into force).

6 Impacts

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

This modification will not impact any SCR or any other significant industry change projects.

7 Legal Text

Text Commentary

In support of the legal text provided, the legal representative shall provide a plain English explanatory note setting out the approach taken to converting the Solution into legal text, illustrating how the legal text delivers the intent of the Solution.

To be provided at a later date

Text

To be provided at a later date

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8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self governance
- Progress to Workgroup assessment

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