

Representation - Draft Modification Report 0541A/B

Removal of uncontrollable UNC charges at ASEPs which include sub-terminals operating on a 06:00 - 06:00 Gas Day

Responses invited by: **5pm 11 April 2016**

Representative:	Andrea Bonzanni
Organisation:	EDF Trading
Date of Representation:	11 April 2016
Support or oppose implementation?	0541A – Support 0541B - Support
Alternate preference:	<i>If either 0541A or 0541B were to be implemented, which would be your preference?</i> No preference
Relevant Objective:	d) Positive g) Positive

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

The inability of UK authorities to align the gas day of beach processing sub-terminals with new NTS gas day as modified by the implementation of the EU network code on Capacity Allocation Mechanisms (NC CAM) resulted in a system where shippers may be inadvertently out of balance and face a number of charges over which they have no control (so-called 'time shift charges'). EDF Trading believes such charges are unjustified, damaging to competition and not compliant with the EU network code on Balancing (NC BAL). These Modifications aims at removing time shift charges.

Implementation: What lead-time do you wish to see prior to implementation and why?

EDF Trading is in favour of immediate implementation to terminate the ongoing negative impact on users and minimise the length of retrospective application.

Impacts and Costs: What analysis, development and ongoing costs would you face?

EDF Trading will face negligible costs related to the implementation of these Modifications.

On the contrary, non-implementation is resulting in direct costs in the form of imbalance and overrun charges and indirect negative impact on industry (most notably, the dramatic decline in 'retro-trading' at 6-6 beach sub-terminals).

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes.

Modification Panel Members have requested that the following questions are addressed:

Q1: Respondents' views are requested on the applicability of User Pays arrangements, with supporting reasons.

EDF Trading believes that these modifications should not be classified as User Pays. As these Modifications ensure compliance with NC BAL, the cost of implementation should be borne by NGG using the allowance they receive for the implementation of EU Network Codes.

Q2: Respondents' views on the six key areas of impact described in the Impact Assessment, in Section 4, of the Draft Modification Report are also invited.

1. Compliance with EU Legislation

EDF Trading does not agree with the view held by NGG that these Modifications are not compliant with EU legislation as they would effectively permit balancing on a 6-6 basis. Allocations and nominations at entry and exit points will continue to be provided on a 5-5 basis and imbalance charges will be calculated accordingly.

EDF Trading believes these modifications are necessary to make the UK balancing regime fully compliant with EU legislation, which requires imbalance charges to: (i) financially incentivise shippers to balance; (ii) reflect genuine system need; (iii) be non-discriminatory; and (iv) avoid cross-subsidisation.

However, 'time shift charges' accrued as a direct result of the mismatch in gas day between some beach sub-terminals and the NTS: (i) do not incentivise shippers to balance as they are totally beyond their control; do not reflect genuine system needs as they are merely the result of a change in gas accounting procedures and unrelated to any type of balancing action; (iii) are discriminatory since they are only applied to users of 6-6 sub-terminals; and (iv) promote cross-subsidisation as the amount raised at the sub-terminals are distributed among all NTS shippers via the neutrality mechanism rather than being used to pay for the cost of a specific balancing action.

2. NTS physical needs

There is no impact on NTS physical needs as 'time shift charges' are the result of gas accounting procedures and do not represent real physical changes to gas flows.

3. Incentive to balance

EDF Trading firmly believes that 'time shift charges' do not provide an incentive to balance, however their level and methodology is. Shippers only receive 6-6 data from

some sub-terminals and that is the only information they have to base their nominations on; there is no way they can access or use correct 5-5 data for 6-6 terminals. Therefore, the disapplication will not result in a change in behaviour by users nor will it have any direct or indirect impact on overall system balance.

4. Impacts on charges and neutrality

EDF Trading believes that due to the specific nature of 'time shift charges' (i.e. they charge certain users due to accounting procedures even though their practices result in no actual costs borne by NGG), it is not correct to argue that their disapplication will result in cross-subsidisation and socialisation. On the contrary, as argued above, it is the current practice that promotes cross-subsidies by charging shippers at 5-5 sub-terminals and redistributing the revenue accrued to all NTS users via the neutrality account.

5. Effect on competition

EDF Trading believes these Modification will promote greater competition by revamping liquidity in beach trading and retro-trading.

6. Justification for retrospectivity

EDF Trading agrees with Ofgem's analysis on this point and believes the changes enforced by these Modifications should be retrospectively applied.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No.

Please provide below any additional analysis or information to support your representation

n/a