

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:	Charles Ruffell
Organisation:	RWE Supply and Trading GmbH
Date of Representation:	11 th 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> 0541A as this offers a robust and enduring solution, consistent with existing processes. This view is provisional and may be revised following the production of a detailed cost estimate and implementation timetable, including time required to meet the CVSL governance processes.
Relevant Objective:	d) Positive g) Positive

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

The workgroup cost benefit analysis clearly demonstrated the source and magnitude of the unforeseeable and uncontrollable costs that can arise because of mismatched gas days. The analysis also showed that a shipper cannot mitigate these costs as information on any mismatch will only be available after the gas day has ended and they be driven by the individual position of other shippers flowing gas via the same sub-terminal. During the work group discussions and in this DMR conflicting views of the legal and competition impacts of making this change have been presented. Our view on these issues is contained in this response.

However, the main reason for our support is that implementing either of these modification proposals will retain the principle that shippers should only be exposed to those risks that they can manage. It is our view that the uncontrollable costs arising from daily imbalance, scheduling and capacity overrun charges is a risk over which shippers have no control and is therefore one that they cannot manage.

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

As soon as practicable to remove the ongoing costs that are already being generated and to the minimum extent of retrospective application. A decision needs to be taken such that work required by CVSL to provide the relevant data can be initiated.

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

There may be some costs associated with 0541B as there would be additional back-office processes required to validate any ex-post adjustments to capacity, balancing, scheduling and INS charges invoiced in the preceding month.

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.

We agree with the proposers that User Pays arrangements do not apply. In our view, implementation of either 0541A or 0541B will ensure fuller compliance with the BAL Code and facilitate the achievement of its objectives, including the calculation of (physical) daily imbalance quantities, application of cost-reflective charges and provision of incentives.

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

We agree that the proposals are consistent with EU Legislation.

2. NTS physical needs

We agree that there are no impacts upon NTS physical needs.

3. Incentive to Balance

We see no dilution in the incentives for shippers to balance. Shippers will still be seeking to balance based upon information available on an 06:00 to 06:00 basis and will remain exposed to charges arising from physical imbalances. These proposals only seek to reverse out costs for calculated "imbalances" that arise from application of the Option A algorithm not those arising from a failure to balance. Any mismatches will only become apparent after the gas day when shippers will no longer be able to respond. As such, they do not impact upon the incentive to balance.

4. Appropriateness of, and impacts on, Scheduling Charges/Balancing Neutrality

Shippers at 06:00 to 06:00 potentially face increased imbalance costs and overrun exposure (or will need to purchase additional capacity) as a consequence of the Option A algorithm. Additional "synthetic" costs included in neutrality create a cross-subsidy from Users at 06:00 to 06:00 terminals to those operating at 05:00 to 05:00. Implementation of 0541A or 0541B would remove both these adverse features.

5. Effect on Competition

We refute the argument that these are imbalance-related costs, ultimately attributable somewhere in the neutrality mechanism and to remove them would create a cross-subsidy. These costs are unrelated to a shippers' failure to balance or any NTS imbalance. We believe that to include them in neutrality simply creates a cross-subsidy from Users at 06:00 to 06:00 terminals to those at operating at 05:00 to 05:00.

6. Justification for Retrospectivity

The DMR sets out a strong case for retrospectivity that we support.

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.*

It is difficult to assess fully the two options in the absence of more detailed cost and implementation information. We would have preferred this information to be available alongside this report.

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

None.