

## 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**

<b>Representative:</b>	Anna Shrigley
<b>Organisation:</b>	Eni Trading & Shipping SpA (hereinafter "ETS")
<b>Date of Representation:</b>	11 April 2016
<b>Support or oppose implementation?</b>	0541A – Support 0541B - Support
<b>Alternate preference:</b>	<i>If either 0541A or 0541B were to be implemented, which would be your preference?</i>  No preference
<b>Relevant Objective:</b>	<b>d)</b> Positive  <b>g)</b> Positive

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

On 1 October 2015, when the UNC Gas Day (GD) changed to 5-5 basis in order to meet EU Regulatory Requirements, most of the GB upstream industry opted to continue operating a 6-6 GD. This is because there was no legal requirement for the GB upstream industry to align their GD with the EU requirements and because of the prohibitive costs of switching their IT systems to a 5-5 GD. Therefore from 1 October 2015 most of the shippers who take gas deliveries at the Beach have faced a situation where they have to manage two different GDs:

1. a 6-6 GD in the upstream industry and
2. a 5-5 GD in the downstream industry.

This mismatch between two Gas Days in the GB industry was partially mitigated by the introduction of an algorithm that converted GD allocations from 6-6 to 5-5 GD and preserved the integrity of the current entry allocation arrangement (CVA). However, this algorithm does not provide a complete solution because it cannot resolve "time-shift" imbalances that occur as a result of an after-the-month CVA allocation process or accounting process. The "time-shift" imbalances are synthetic imbalances that shippers cannot predict and that occur after the GD ends. Therefore they are not real physical imbalances and no balancing actions are required to manage "time-shift" imbalances. However "time-shift" imbalances trigger a number of charges that ETS believes are

unwarranted, discriminatory and create a cross-subsidy, which undermines competition. Because “time-shift” charges occur only at 6-6 terminals and it is a certain sub-set of shippers that suffer from the application of these charges, ETS believes that “time-shift” charges are discriminatory. Furthermore, because the monies collected via the “time-shift” imbalance charges are subsequently redistributed to all shippers via the neutrality mechanism, this creates a cross-subsidy and undermines competition.

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

ETS supports the implementation of the Mod 0541A/B as soon as possible.

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

ETS does not face any costs that relate to implementation of either Mods 541.

However, if neither modifications are implemented ETS expects to face significant costs in the form of imbalance, scheduling and possibly capacity over-run charges. In addition, ETS expects that an indirect impact of non-implementation will be a decline in retro-trading and increased costs when Beach deals are conducted at the affected 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.*

Because the Mod 541 is looking to rectify problems that are a result of UNC modifications that ensured GB compliance with the EU Regulatory requirements, we believe that the User Pays principle should not apply and the cost should be borne by NGG who received the allowance to introduce code modifications required to implement the 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.*

### **Compliance with EU legislation**

ETS agrees with Transport ( Gas Day) Working Group Response in Appendix 2 of the Draft Modification Report that in the absence of UNC Mod 541 neither NGG nor NTS shippers will comply with the principles supported by the Balancing Network Code and Regulation EC 715/2009.

All imbalance, scheduling and overrun charges that are a result of a “time-shift” mismatch of upstream and downstream Gas Days are discriminatory , they do not reflect system genuine needs, they are not cost reflective, they create a cross subsidy and they do not provide appropriate balancing incentives for shippers.

## NTS Physical Needs

Given that the “time-shift” imbalances are not physical but synthetically generated during the gas allocation process (as a result of the application of an algorithm that converts 6-6 gas day allocations to a 5-5 gas allocations), they do not cause any system balancing actions nor create any costs to the system. Therefore proposals in UNC Mod 541 A and B would not have any adverse impact on the physical needs of the NTS.

## Incentive to Balance

Because shippers are unable to predict, nor they can control their “time-shift” volumes, under the current regime, shippers do not seem to have an effective incentive to balance their portfolio since the synthetic charges will apply anyway. If Mod 541 is implemented, then shipper will no longer suffer the costs of synthetic imbalances and they will again have a clear and strong incentive to balance.

## Impacts on scheduling charges and neutrality

Shippers who take gas deliveries at 6-6 gas terminals are exposed to scheduling charges that are a result of implementation of a 5-5 Gas Day in the downstream industry. This represents an unfair source of competitive disadvantage that the UNC Mod 541 would resolve.

The workgroup report describes how the neutrality payments, which resulted from the synthetic imbalances levied on shippers who use 6-6 terminals, are subsequently redistributed to all shippers that use 5-5 terminals and 6-6 terminals. This creates a cross subsidy and undermines competitions, that the UNC Mod 541 would also resolve.

## Effect on competition

Both modifications will facilitate that charges are accrued fairly and that cross-subsidies are minimised and therefore better facilitate competition.

Higher charges at gas delivered at 6-6 gas terminals can deter gas trading activity at these points and impact on overall wholesale market liquidity. This distortion of competition and associated risks to market liquidity would be addressed by implementation of UNC Mod 541.

## Retrospectively

ETS supports the retrospective implementation of UNC Mod 541 because this will reimburse shippers who have suffered unfair, uncontrollable and unjustifiable charges since the implementation of a 5-5 Gas Day in the GB downstream industry. ETS agrees with the justification reasons outlined in the Workgroup Report for retrospective implementation of the UNC Mod 541.

**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.*

None.

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

ETS's view is that it is essential that the UNC is further modified in order to correct unforeseen negative consequences that resulted from the current arrangement that was made to ensure GB compliance with the EU regulatory requirements. The cost benefit analysis in the Workgroup Report demonstrates why the implantation of this Mod is highly attractive.