

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:	Nelly Tcheeko
Organisation:	Engie S.A
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> 0541A
Relevant Objective:	d) Positive g) Positive

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

The implementation of the NTS Gas Day change in response to the EU Network codes has lifted new challenges to get accurate values between the supply and the demand. As they were not required to change, some UK terminals (“GMT terminals”) decided to maintain 06:00-06:00 data instead of 05:00-05:00 data to avoid some additional costs due to the change.

As a result, the difference between the 06:00-06:00 data of the producers and the quantity measured on a 05:00-05:00 basis by National Grid leads to Time-Shift charges (which can be imbalance charges, scheduling charges and overrun charges) that cannot be avoided by the shippers. As a matter of fact, the only way to avoid these charges is to mitigate the difference between two different gas days, which are currently unforeseeable and uncontrollable.

Consequently, the Time-Shift charges are not financially incentivising for the shippers who can by no means predict them. They are artificially created by used calculation mechanism : they reflect no real changes neither in the production, neither in the consumption and are completely disconnected from real network imbalances. They are not cost-reflective and as such, they disadvantage shippers active on GMT terminals and bias competition on the market.

The income from Time-shift charges is collected on the Neutrality account and is supposed to be fairly redistributed to all the shippers. Although without taking into

account increased penalization of the shippers active on GMT terminals, equal treatment is impossible which leads to further discrimination of the shippers who pay them and to cross-subsidies of the rest of the market players.

The two proposed Modifications cancel the effects of these unfair charges and restore fully compliance with EU law and fair competitions among shippers.

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

ENGIE expects the modification be applicable as soon as possible, even if it is important to ensure that the CSVL gets enough time to provide with accurate data to do the retrospective aspect.

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

No costs are expected on ENGIE's side with the implementation of the UNC Mod 0514.

On the contrary, the Time-Shift charges previously invoiced to Shippers at 6-6 Terminals will be retrospectively reimbursed to them, and hence have positive impacts on NTS Shippers at 6-6 terminals.

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

ENGIE is globally satisfied with the legal text.

Nevertheless we would prefer Mod 0541A to be implemented because the accurate invoice (with the real charges) will be sent within the Month +1 and not two months later.

Added to that, we would also prefer the 30 day timeline for users to provide National Grid NTS with data for the retrospective aspect to be extended to more than 30 days.

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 believe that the User Pays arrangements have no reason to be applied because of two reasons :

- The Gas Day change has previously not been fully implemented. Ofgem and National Grid were fully aware long before that the Gas Day Change would provoke uncontrollable imbalance charges for shippers at 6-6 terminals. When the Gas Day change was finally implemented, no real solution about the time-shift charges was proposed.
- These modifications are compliant with the EU Code as they remedy the negative effects of Time-shift charges and re-establish financial incentives, avoid cross-subsidies and restore fair competition among all shippers.

As the shippers are not responsible for the current situation, there's no reason for them to undergo User Pays arrangements.

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

According to the Balancing Network Code, the time-shift charges are in contradiction with the relevant rules that are (i) financial incentives, (ii) genuine system need reflection, (iii) non-discrimination and (iv) no cross-subsidisation.

Nowadays, the balancing rules implemented in the GB system are not fully compliant with the EU legislation. The modifications will permit to connect imbalances charges in GB with satisfied EU legislation's conditions.

NTS physical needs

As it is clearly explained in the modifications, the time-shift mismatches are not a physical imbalances but synthetic imbalances due to the Gas Day change. The proposals would have no impact on the NTS physical needs.

Incentive to balance

The time-shift charges currently applied are unpredictable for the shippers at GMT terminal shippers become aware of the mismatches long after the gas day has ended

The numerical examples in part 4 prove that the existence of Time-shift charges can even lead to an absence of charges for really imbalanced shipper which is completely against Balancing Code principles.

Implementing the modifications will allow shippers to bear only the costs reflecting their real physical imbalance and hence incentivise them to balance their portfolios.

Impact on scheduling charges and neutrality

Since 1st October 2015, the scheduling charges are mostly paid by the shippers at GMT terminals. The neutrality mechanism disadvantages them for the competition as the charges are socialized and redistributed among all shippers. This leads to discrimination and cross-subsidies .

The modifications will correctly redistribute the neutrality account among the shippers as the time-shift charges will not be contained.

Effect on competition

The significant costs due to the time-shift charges jeopardize competition as they conducts or lead to? to discrimination and cross-subsidies. ENGIE considers the removal of Time-shift charges would only be a return to the normal state of the competition that existed before 1st October 2015.

Added to that, as the time-shift charges imposed to shippers at GMT Terminals additional costs, the liquidity of the wholesale markets decreases. The modifications would effectively address the lowering liquidity risks.

Justification for Retrospectivity

ENGIE believes it is absolutely fair to reimburse all the shippers that have supported the uncontrollable charges induced by the time-shift volume. We believe such retrospectivity is line with Ofgem's guidelines on the subject.

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

Since the split between Bacton UKCS and Bacton IP, shippers are constrained to capacity congestion on Bacton UKCS in the first quarter. The Gas Day change would potentially lead to capacity overrun charges that are significant but only induced by the time-shift mechanism. Shippers at GMT terminals would have no lever to mitigate that risk.

With the modifications, shippers at 6-6 terminals will avoid such discriminatory charges.