

## 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>	Andrew Pearce
<b>Organisation:</b>	BP Gas Marketing Limited
<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> 0541A/0541B* <i>delete as appropriate</i>
<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)

BP Gas Marketing is the proposer of modification 0541A. We are in support of either 0541A or 0541B being implemented.

National Grid NTS has introduced a 05:00 hours to 05:00 hours gas day from 01 October 2015 due to the implementation of the CAM and Balancing European network codes. However the majority of GB's gas beach processing sub terminals have continued to run on a 06:00 hours to 06:00 hours gas day after 01 October 2015 (the "GMT Terminals"). This is due to the technical challenges and costs that would be incurred in changing all terminal and upstream metering to run on a 05:00 hours to 05:00 hours gas day (beach processing terminals and upstream are not covered by the European network codes as they are classed as entry points into the EU).

Without this Modification Users at GMT Terminals are likely to incur on every day NTS Daily Imbalance Charges and Scheduling Charges and potentially Overrun Charges and Incentivised Nomination Charges as a result of the Time Shift Mismatches since they are likely to be out of balance every day (long or short) depending on whether the Entry Point Daily Quantity Delivered is greater or smaller than the aggregate of all Users' claim numbers ("Time Shift Charges"). Time Shift Charges would be unearned and not capable of mitigation by Users and would not arise from the physical needs of the NTS nor the Users failure to balance. Monies raised from Time Shift Charges would be

returned to all Users via the neutrality charge systems. Time Shift Charges would therefore not be in compliance with the principles set out in the Regulation that balancing rules should: (i) financially incentivise network users to balance their balancing portfolios via cost reflective imbalance charges; (ii) reflect genuine system needs; (iii) be non-discriminatory; and (iv) avoid cross subsidisation.

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

Implementation should be as soon as possible after a decision by Ofgem. Implementation should take effect on the first calendar day of a month and the start date for retrospective adjustments is 01 October 2015.

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

We would expect ongoing costs to be similar to those that have occurred since October 2015 and the implementation of "Option A" to the CVSA process. However, it should be pointed out that there have been no supply shocks or changes in flows due to seasonal maintenance programmes since the implementation of the 05:00 hrs to 05:00 hrs gas day by National Grid NTS.

Appendix 3 of the draft modification report shows the analysis that has been carried out by the proposers.

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

We are generally satisfied with the legal text other than in the following areas :

- 1) Paragraph 24.4 of Part IIC – Transitional Rules states that no GMT Retrospective Period Adjustments shall be calculated or paid in respect of a Day unless the aggregate of the quantities stated in all GMT Entry Allocation Statements (submitted by or on behalf of Delivering Users) is equal to the GMT Entry Point Daily Quantity Delivered (ref conditions in E 11.1.6). Please explain why National Grid NTS cannot make a default calculation of GMT UDQIs pursuant to the new E 11.1.7 in these circumstances?
- 2) We do not think that all the references (ref: B2.12.11, B2.13.3, B2.13.4, E5.3.15, E5.3.16, E11.2, F2.4.3, F2.4.4, F3.2.5 and F3.2.6.) to months in 0541A and B are correct as they do not all match the timings set out in the Business Rules in Section 3 of the Modification Report (which we think are correct). Please can these be checked?.

**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.*

BP does not believe that these modifications should be classed as User Pay's.

As has been pointed out during the workgroup stage of these modifications the change to the UK gas day was a direct result of the implementation of the European network codes

for CAM and Balancing. Entry Points into the EU are not covered by the EU network codes, as such due to the costs and logistics involved the majority of the UK beach gas processing terminals and offshore installation remained on a 06:00 hrs to 06:00 hrs gas day.

*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**

Appendix 2 of the Draft Modification Report sets out why with the current situation shippers and National Grid cannot comply with the current regulation. However, if modification 0541A or B was implemented it is our opinion that all parties would be able to comply with the relevant regulations.

Analysis was also shown during the workgroup sessions that the current Neutrality methodology exposes shippers who purchase gas at GMT Terminals and benefits shippers who purchase gas at non GMT Terminals.

## **2. NTS Physical needs**

There are no concerns about the impact of the solution on the physical needs of the NTS.

## **3. Incentive to Balance**

The creation of Time Shift Volumes is a result of the process of translating offshore 06:00 to 06:00 allocations into 05:00 to 05:00 downstream allocations. Users have neither control, nor ex ante comprehension of the size or direction of the Time Shift Volume and as such any subsequent charges (balancing, capacity, scheduling and INS) are spurious. The modifications preserve "properly" incurred imbalance charges (or real imbalances) and as such retain an incentive to balance on those aspects of a User's portfolio where it can apply reasonable control.

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

Users at GMT Terminals are incurring "Time Shift Mismatches" which is placing them out of balance, so incurring imbalance, scheduling and potentially Incentivised Nomination charges. Such "Time Shift Charges" are not as a result of a Users' failure to balance or an NTS imbalance and are not able to be mitigated by Users.

Monies raised from Time Shift Charges would be returned to all Users via the neutrality mechanism. Time Shift Charges would therefore not be in compliance with the principles set out in the EU Regulation that balancing rules should: (i) financially incentivise network users to balance their balancing portfolios via cost reflective imbalance charges; (ii) reflect genuine system needs; (iii) be non-discriminatory; and (iv) avoid cross subsidisation.

Only Users at GMT Terminals would be paying money into the neutrality pot due to the Time Shift Charges. However, Users at 05:00 terminals would receive the benefit from the neutrality pot. By implementing either modification 0541A or 0541B the problem of Time Shift Volumes would be removed.

## **5. Effect on Competition**

In order to maintain competition it is essential that markets are transparent and cross-subsidisation is minimised. Without the implementation of either of these modifications, both of these principles are compromised. There is insufficient relevant information around final allocations for those Users operating at GMT Terminals at the time of operating; and a cross subsidy between GMT Terminal Users and non GMT Terminal Users is created. Additional cross-subsidies will occur between Users operating at the same GMT Terminals as a result of the application of the "Option A" algorithm. It has already been seen that liquidity in beach swap trading has almost dried up at GMT Terminals.

Implementation of either of these modifications will ensure that Users are able to manage and have confidence in entry allocations and that any cross subsidies resulting from the imposition of Time Shift Charges are removed.

**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**

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