

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:	Guy Hannay-Wilson
Organisation:	Chevron Products UK Limited
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)

On October 1st 2015, the Downstream gas day in the UK changed from 06:00-06:00 to a 05:00-05:00 gas day. Only a limited number of terminals were able to move to a 05:00-05:00 gas day. This resulted in a mismatch at the majority of terminals which we believe has exposed shippers to extra balancing and scheduling costs. These costs are, in our opinion, uncontrollable for shippers who can only learn of them after final volume validation and therefore do not financially incentivise shippers to balance. Both modifications should act to remove the costs to shippers and restore the correct and transparent incentives to balance while ensuring full compliance with EU legislation.

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

Chevron supports implementation as soon as possible to reduce the retrospective period of repayment and limit further costs to shippers in the UK downstream gas network.

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

Chevron expects there will be potential for a limited implementation cost though far outweighed by the benefits of Modifications 541 a/b. Chevron expects further costs if neither modification is implemented. In addition to the direct impact of the costs, in our opinion (which we believe is shared within the industry), beach trading activity at 06:00-

06:00 terminals has seen a noted decrease. Modifications 541 a/b would be expected to return the lost value at the 06:00-06:00 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.

Modifications 541 a/b should ensure better alignment with the EU balancing Network Code as current balancing arrangements are, in our opinion, neither cost-reflective nor does it incentivise shippers to balance. Money is also redistributed to other shippers via the Neutrality mechanism, creating cross-subsidy.

*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

To align with current regulation, imbalance charges should i) incentivise shippers to balance, ii) reflect genuine system need, iii) be non-discriminatory and (iv) avoid cross-subsidisation.

As the “time-shift” mismatch is a retrospective accounting calculation inaccessible to shippers during a gas day, shippers cannot nominate accurately to account for such a mismatch and therefore extra charges incurred are not an incentive to balance.

The charges due to the “time-shift” are not reflective of genuine system need and are merely an accounting adjustment.

The charges also discriminate against shippers at 06:00-06:00 terminals

Finally, there is cross-subsidisation caused by the current balancing arrangements. Any monies raised at 06:00 terminals are then redistributed to all shippers on the NTS via the Neutrality balancing mechanism.

2. Physical needs

The “Time shift” causes a synthetic imbalance and not a physical one. The physical impact to the network of the Modifications would be non-existent.

3. Incentives to balance

In our opinion, the current imbalance charges are not an incentive to balance: 06:00-06:00 volumes are time-shifted after the close of a gas day and incur extra charges, shippers cannot balance as accurately as possible and are exposed to uncontrollable costs. The only data available to shippers at 06:00-06:00 terminals is 06:00-06:00 data.

Either Modifications should remove these uncontrollable costs from shippers and restore the balancing regime at 06:00-06:00 terminals to a fully incentivised one for shippers.

4. Impacts on charges and neutrality

Since October 1st 2015, shippers at 06:00-6:00 terminals are exposed to synthetic, uncontrollable costs while at 05:00-05:00 terminals, shippers benefit from balancing neutrality payments accrued from synthetic balances at 06:00-06:00 terminals. The Modifications should ensure that the neutrality mechanism distributes costs in the correct way and does not discriminate against shippers at 06:00-06:00 terminals.

5. Effect on competition

In our opinion, the current position at 06:00-06:00 terminals has resulted in higher costs than at 05:00-05:00 terminals. This, we believe, has had a detrimental effect on Beach trading at these terminals as well as a potential deterrent to transporting gas through 06:00 – 06:00 terminals and therefore an adverse impact to liquidity in the UK market. Either Modification should effectively address these costs and risks and restore lost competition to the system.

6. Justification for Retrospectivity

Chevron fully agrees that Ofgem's conditions for retrospectivity are satisfied as detailed in the Workgroup Report.

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