

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:	Andy Giles
Organisation:	ENGIE E&P UK
Date of Representation:	8 th April 2016
Support or oppose implementation?	0541A - Support* <i>delete as appropriate</i> 0541B - Support * <i>delete as appropriate</i>
Alternate preference:	<i>If either 0541A or 0541B were to be implemented, which would be your preference?</i> 0541A* <i>delete as appropriate</i>
Relevant Objective:	d) Positive * <i>delete as appropriate</i> g) Positive* <i>delete as appropriate</i>

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

UK gas terminals were not within the scope of the EU Network Codes and many chose to retain their existing 6am-6am gas day when the downstream gas day changed to 5am-5am on 1 October 2015. Shippers and upstream operators continue to do their best to mitigate the effect of operating with two different gas days at these terminals but they are limited in their ability to accurately balance their supply and demand positions as the time-shift quantities are out with their control.

As a result shippers at 6am-6am terminals now face unforeseeable and uncontrollable costs arising from daily imbalance, scheduling and capacity overrun charges. Both of the proposals, Mods 541A and 541B, seek to mitigate these unfair, inappropriate and unwarranted charges. In addition the proposals will help to avoid cross-subsidy payments to Shippers at 5am-5am terminals by reducing the revenues paid into the neutrality accounts.

The two proposals ensure compliance with EU law and restore a level playing field for fair competition between shippers whilst preserving commercial integrity and the liquidity of the GB wholesale market. This will help to ensure lower gas supply costs for UK gas consumers.

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

As soon as reasonably practicable as it is proposed that the selected Mod should apply retrospectively. However, it is important to ensure that implementation is compatible with the change to the claims validation process administered by CVSL.

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

The impact of UNC Mod 541 would be entirely positive for NTS shippers at 6am-6am terminals. Implementation of Mod 541 would require some further modification of claims validation agreements and data management. The cost for shippers of the required CVSL changes and any ongoing administrative charges are expected to be small.

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 believe that the User Pays principle should not apply as the proposals are merely seeking to remedy the adverse consequences of implementing UNC Mod 461 to comply with 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.

We believe the proposals will ensure improved alignment with the relevant EU legislation with shippers able to respond to circumstances they can control.

NTS physical needs

We agree that the proposals in UNC Mod 541 A and B would have no adverse impact on the physical needs of the NTS.

Incentive to balance

Under current arrangements, the workgroup has demonstrated that Shippers cannot control 'time-shift' volumes'. If Mod 541 is implemented, shippers would no longer have to bear the cost of these uncontrollable imbalances and would have a clear and strong incentive to balance their supply and demand positions.

Impacts on scheduling charges and neutrality

Shippers at 6am-6am terminals are currently more exposed to scheduling charges than they were before the change in the downstream gas day. This represents an unfair source of competitive disadvantage which would be addressed by UNC Mod 541.

Since 1 October 2015, shippers at 5am-5am terminals benefit from balancing neutrality payments that result from the element of synthetic, uncontrollable charges imposed on shippers at 6am-6am terminals, as described in the workgroup report. The modification proposal should correct this position.

Effect on competition.

The current position in which shippers at 6am-6am terminals face a significantly higher risk of imbalance, scheduling and capacity overrun charges than shippers at 5am-5am terminals has an adverse effect on competition between NTS shippers in the wholesale market. By imposing additional unmanageable risks at 6am-6am terminals, current arrangements deter trading activity based on gas volumes entering the NTS at 6am-6am terminals, with a possible adverse impact on overall wholesale market liquidity. The proposed modification will help to remove this issue.

Retrospectivity

We agree that a retrospective application of the proposals is correct for the reasons set out in the draft workgroup report. This will enable shippers to recover uncontrollable charges incurred since the change of gas day on 1st October 2015.

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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