

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:	Jeff Chandler
Organisation:	SSE
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)

Either mod will further the Relevant Objectives. Due to the EU code changes, shippers at 6-6 terminals now face unforeseeable and uncontrollable costs arising from daily imbalance, scheduling and capacity overrun charges. Mods 541 A and B address these unfair and inappropriate charges. The Mods will ensure compliance with EU legislation, restore fair competition between shippers and remove the current cross subsidy, arising through neutrality, between shippers operating at 6-6 terminals and all other shippers.

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

As soon as possible, to remove the current market distortions.

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

SSE faces no analysis, development or ongoing costs due to implementation. However, we do expect to face costs if neither mod is implemented. These costs will be in the form of 'synthetic' imbalance, scheduling and over-run charges.

Over-run charges have the capacity to increase significantly due to Ofgem's Gas Transmission Charging Review, the EU Tariff NC and the current GB charging review. They all relate to how NG will recover its revenue via, potential removal of commodity

charges, the application of multipliers to daily capacity products and the introduction of floating capacity uplift charges . If the cost of daily capacity increases, the cost of acquiring capacity and the cost associated with Overrun Charges will be significantly higher than that forecast in the mod report.

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.

The mods are required to address limitations and failings of the implementation of the EU Balancing Network Code. Consequently, the costs ought to be borne by NG, using the allowance they received to implement the EU Network Codes.

NG has argued its implementation of the EU Balancing Network Code is complete. SSE disagrees on the grounds that the Gas Day change is not implemented fully or properly. NG was aware of the 'time-shift' problem prior to implementing the Gas Day change but chose not to address it. SSE believes the new Gas Day should have been implemented taking into account the wider impact on industry and customers.

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

SSE agree with the workgroup conclusion in Appendix 2 that without Mod 541 neither National Grid nor NTS shippers will comply with the Balancing Network Code and Regulation EC 715/2009. At present, the charges levied by National Grid at 6-6 terminals are discriminatory, are not cost-reflective, do not reflect genuine system needs, represent a cross-subsidy and do not act as appropriate incentives for shippers to balance. Implementation of UNC 541 will restore the GB market to EU legal compliance.

NTS physical needs

The proposals in UNC 541 A and B would have no adverse impact on the physical needs of the NTS since they address the 'synthetic' imbalances arising from 'time-shift' volumes, not from real, physical imbalances.

Incentive to balance

Currently, the imbalance charges do not act as an effective incentive to balance. As the workgroup report describes, shippers cannot manage or control the 'time-shift volumes' as they become aware of the mismatches after the gas day has ended. A shipper at a 6-6 terminal acting on the best available information cannot balance effectively and avoid these charges. If Mod 541 is implemented, shippers would no longer have to bear the cost of these unpredictable and uncontrollable 'time-shift imbalances'.

Impacts on scheduling charges and neutrality

Since 1 October 2015, shippers at 5-5 terminals benefit from balancing neutrality payments that result from the element of synthetic, uncontrollable charges imposed on shippers at 6-6 terminals, as described in the workgroup report. This represents an unfair cross-subsidy which distorts fair competition. This too would be remedied by mod 541.

Effect on competition

The current position in which shippers at 6-6 terminals face a significantly higher risk of imbalance, scheduling and capacity overrun charges than shippers at 5-5 terminals has an adverse effect on competition between NTS shippers in the wholesale market. This is discriminatory. By imposing additional unmanageable risks at 6-6 terminals, the current arrangements may introduce a barrier to entry on gas volumes entering the NTS at 6-6 terminals. This may decrease overall wholesale market liquidity and increase costs to shippers and ultimately customers. This distortion of competition and the risks to market liquidity would be mitigated by Mod 541.

Retrospectivity

The Mods have been raised to address unfair charges incurred since the enforced change in the downstream Gas Day on 1 October 2015. SSE believe that shippers should be entitled to reimbursement of uncontrollable charges since that date. SSE believe that such retrospective application is in accordance with Ofgem 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