

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:	Graham Jack
Organisation:	British Gas Trading Limited
Date of Representation:	8 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)

Shippers receiving gas at system entry points that continue to operate on the previous Gas Day basis of 6am – 6am are limited in their ability to accurately balance their supply and demand requirements on the 5am – 5am Gas Day basis because they are unable to control their time-shift quantities. They will endeavour to do so to the best of their abilities but notwithstanding this they will always be exposed to daily imbalance, scheduling and capacity overrun exposures that are beyond their reasonable control. Both of the proposals, 0541A and 0541B, seek to mitigate these uncontrollable exposures in a proportionate manner. In doing so, the relevant neutrality accounts will receive less revenue thereby helping to avoid cross-subsidy payments to shippers at 5am – 5am system entry points.

The workgroup clearly demonstrated how uncontrollable exposures can arise because of Gas Day mismatches and in the absence of more sub-terminals moving to a 5am – 5am Gas Day the proposed solutions will provide a more level playing field for competition in gas shipping and supply. It is important to note that a shipper will face such uncontrollable exposures at a 6am – 6am sub-terminal not only from its own inability to control its time-shift quantities but also from that of other shippers flowing gas via the same sub-terminal.

Proposal 0541A is the more appealing proposal of the two as it will provide a cleaner ex ante solution, i.e. before monthly invoices are generated.

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

As soon as reasonably practicable, especially as there is a retrospective aspect to the proposals. It is important, however, that sufficient time is afforded to CVSL so that it can provide the data necessary to support the proposed solutions.

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

Some minor administrative costs are anticipated.

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 User Pays arrangements should not apply as the proposals are seeking to remedy unforeseen consequences arising from the implementation of European network codes. In implementing these codes our expectation has been that a holistic solution should be provided to the industry but this was not achieved in the specific case of the Gas Day change, arguably as a result of the speed with which the change has to be made.

In the event that User Pays arrangements are considered appropriate, the costs should be targeted on system entry points that remain on a 6am – 6am Gas Day Basis.

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

The modification proposals have clearly demonstrated that shippers' ability to accurately balance their daily supply and demand is undermined by the 6am – 6am operation at many UK sub-terminals. Shippers do not want this situation but it's a reality and is beyond their control. We believe that a shipper should be required to balance to the best of its ability and only to the extent that it is reasonable to expect it to do so. These proposals are conducive to such an outcome and will also avoid the risk of shippers making operational, commercial and sub-optimal decisions under the status quo that could in themselves be considered to result in outcomes that are not consistent with the EU Balancing network code principles.

We therefore believe that it is more in keeping with EU Legislation for shippers to be required to respond to circumstances that they can control than to something that they

clearly can't and that the modification proposals will provide improved alignment with the Regulation.

NTS Physical Needs

We agree that the proposals should have no detrimental impact on meeting the physical needs of the NTS.

Incentive to Balance

Under the proposals, a shipper retains a significant incentive to balance its supply and demand. The workgroup has demonstrated how the "time-shift volumes" cannot be controlled or predicted. The status quo therefore undermines the ability of shippers to balance. In fact, even if imbalance cash-out prices were significantly increased this would have no impact on a shipper's incentive to manage "time-shift volumes" – they would still be uncontrollable - and the result would be even greater cross-subsidisation in favour of shippers flowing gas at 5am – 5am sub-terminals via higher contributions to balancing neutrality from shippers flowing gas at 6am – 6am sub-terminals. This cannot be desirable.

Appropriateness of, and impacts on, Scheduling Charges/ Balancing Neutrality

Shippers at 6am – 6am sub-terminals are more exposed to input scheduling charges than under the previous Gas Day regime due to time-shift effects. This additional exposure also needs to be recognised and proportionately managed so as not to confer an unreasonable and unfair disadvantage on those shippers.

Since 1 October 2015, shippers that input gas at 5am – 5am sub-terminals can benefit from balancing neutrality payments that result from "synthetic" imbalance exposures at 6am – 6am sub-terminals described in the draft workgroup report. This is an inappropriate cross-subsidy and does not accurately reflect the relative attempts by shippers to balance. Such a cross-subsidy undermines fair competition in shipping and supply. The modification proposals should reduce the amounts paid in to the balancing neutrality account and correct this anomaly.

Effect on Competition

We are of the view that the current situation has an adverse effect on competition. Shipper concerns over uncontrollable imbalance, scheduling and capacity overrun charges can be reasonably expected to affect shipper behaviour such that they will take mitigation actions to try and address the anticipated risks. This will be costly and will arguably provide a basis for unfair competition between shippers. The modification proposals will help to alleviate this.

Justification for Retrospectivity

We agree that a retrospective application of the proposals is justifiable for the reasons set out in the draft 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.*

None identified

Please provide below any additional analysis or information to support your representation