



**Modification Proposal 560:
Addressing under-allocation of flows from BBL
arising from misalignment of reference conditions**

Modification Panel

15th October 2015

Why Change?

Misalignment Problem

- BBL implementing nominations matching from 1st October 2015
 - Integrated IT solution across its system (i.e. including at Julianadorp)
 - Including change in reference conditions to 0°/25°
- NG implementing:
 - Nominations matching from 1st October 2015
 - IT Solution for reference conditions (modification 519) from 1st April 2015
 - Ringfenced for IPs, rest of NTS will continue at 15°/15°
- Misalignment of reference conditions
 - A quantity of energy expressed at 15° /15° is slightly greater than at 0°/25°
 - Ratio of 1:0.9990
 - Matching rules – BBL nom prevails i.e. noms will be matched to a lower value
 - Leads to 0.1% under-allocation in NTS Allocations at BBL
 - Value loss to BBL Users, total of c.£700k - £900k (Oct – April) forwards flow
 - [NG will provide data on BBL reverse flow quantities]

Balancing Neutrality Solution

- Essentially a 'manual workaround' for modification 519
- Calculate what Users' BBL allocations would have been at 15/15
 - Apply same conversion as modification 519, $F = (1/0.9990)$
- Calculate the corrected value of BBL Users' imbalance charges using the adjusted allocations
 - Manual step
- Perform energy balancing invoice corrections/adjustments
 - BBL Users imbalance charge
 - Balancing neutrality charge
 - Using existing offline process for energy balancing adjustments
- Monthly basis in line with energy balancing invoicing
 - Invoices at M+2
 - Starting in December

Application - Retrospectivity

- Proposal is that corrections should be made from 1st October 2015
- Recap - Ofgem's criteria for retrospectivity:
 1. "A situation where the fault or error giving rise to additional costs or losses was directly attributable to central arrangements"
 2. "Combinations of circumstances that could not have been reasonably foreseen"
 3. "Where the possibility of retrospective action had been clearly flagged to participants in advance, allowing the detail and process of the change to be finalised with retrospective effect"

And

4. Costs/Losses due to prevailing rules need to be material

Also - consider the balance between Retrospectivity and Urgency

Retrospectivity

Criteria	Proposer's View
1. Fault/error directly attributable to central arrangements	“Central arrangements” = Gemini and, in the context of IP's, the arrangements for reference conditions and allocations at IPs Misalignment of reference conditions / lack of automated correction in Gemini = 'central arrangements'
2. Combinations of circumstances could not have been reasonably foreseen	Lack of alignment could not have been foreseen or anticipated by Shippers
3. Possibility of retrospective action clearly flagged in advance	<ul style="list-style-type: none">• NG flagged the issue as a potential impact in modification 0519 and stated it would work with affected parties as required• Shippers raised the issue in workgroup as needing to be addressed• Proposer made it clear that retrospective action was intended, by raising the proposal in advance of 1st October
4. Material Costs/Losses	Cumulatively material to BBL Shippers because of the 6/7 months period of misalignment

Urgent Proposal

- Proposer requests the Modification should be given 'Urgent' status
- Recap - Ofgem's criteria for urgency.
- "An Urgent Modification should be linked to an **imminent issue** or a **current issue** that if not urgently addressed may cause:
 - a. A significant commercial impact on parties, consumers or other stakeholder(s); or
 - b. A significant impact on safety and security of the electricity and/or gas systems; or
 - c. A party to be in breach of any legal requirements."

Proposer's View:

- This is a current issue, which if not urgently addressed will cause a significant commercial impact on BBL Shippers
- Transitional/temporary

Balance between Urgency and Retrospectivity

- Ofgem guidance:
 - ‘Retrospective application may negate the need for urgent procedures, or vice versa’
- Proposer’s view: this is both retrospective and urgent
 - Believes retrospective criteria are sufficiently met to justify application in this case
 - Assuming retrospectivity is acceptable, perhaps consider need for urgency?
- ‘Retrospective’ in the sense of the time between 1st Oct and the implementation of revised rules (if approved)
 - Retrospectivity creates uncertainty
 - Desirable to minimise this period
- If mod is treated as urgent, solution can be given effect with 1st relevant energy balancing invoice at M+2
 - Normal invoicing timescales: close as possible to the relevant gas day
 - Preferable for cashflow / year end
 - Minimise effect for other Shippers
 - neutrality corrected at the same time
- If not (assuming retrospective application is accepted) then solution would be a larger set of adjustments, made later
 - Further away from the relevant gas day
 - Post-event amendment of an invoice (as opposed to adjustment/correction on the first issue of an invoice)
 - Post-event amendment of energy balancing neutrality
 - Cashflow deferrals/accruals for affected Shippers

Balance between Urgency and Retrospectivity (2)

- Criteria for retrospectivity appear in the guidance for urgent modifications
 - Need to minimise periods of uncertainty
- Proposed solution is:
 - relatively simple, quick, easy to implement
 - ‘manual workaround’ for mod 0519 solution
 - temporary /transitional
- Proposer believes retrospectivity is appropriate, against the criteria, and urgency is also appropriate
 - Transitional period
 - Without retrospectivity, mod would be ‘very urgent’
 - ‘very urgent’ approach might compromise the need for an appropriate level of industry consultation
 - Urgency should not replace retrospectivity in this case
 - We believe ‘both’ strikes an appropriate balance between the various considerations in respect of this issue

Proposed Steps / Timescales

- Panel is requested to support “Urgent” procedures for this proposal
 - Contracted timescales
 - Still providing for a workgroup discussion and consultation
 - Shortened consultation period
 - Use existing Workgroup and Panel dates
 - Shortened decision period

Initial discussion at Workgroup	was 1st October 2015
Request for Urgent Status	14 th October 2015
Normal Mod Panel Meeting (Recommendation on Urgency)	15 th October 2015
Ofgem decision on Urgency (by)	22 nd October 2015
Workgroup meeting	5 th November 2015
Refine text in line with workgroup discussion	5 th -10 th November 2015
Modification issued for consultation (including suggested text)	10 th November 2015
Final Date for Responses	17 th November 2015
Final Mod Report published	18 th November 2015
UNC Modification Panel recommendation	19 th November 2015
Ofgem Decision (by)	27 th November 2015

Additional Material

EU Interoperability Code: Reference Conditions

- EU Interoperability Code requires harmonised reference conditions
 - Temperature at which Volume and Cv are determined
 - EU requires harmonisation at 0°/25°
 - unless Adjacent TSOs arrangements are already harmonised at other conditions
 - and NRA approves (as at Moffat)
 - Commercial operation of NTS carried out at 15°/15°
 - Also requires standard-form Interconnection Agreements, including OBAs
- Balancing Code requires harmonised nominations matching processes
 - Between adjacent TSOs at IPs
 - Requires application of a 'Matching Rule'

Any Comments, Views, please contact:



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