










Modification	At what stage is this document in the process?
<h1>UNC 0605:</h1> <h2>Amendments to TPD Section K - Operating Margins</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>This Modification seeks to enable National Grid NTS to procure and dispose of Operating Margins Gas in a more efficient and economical way.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> • subject to self-governance • assessed by a Workgroup <p>This modification will be presented by the Proposer to the Panel on 15 December 2016. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact:</p> <p>None</p>
	<p>Medium Impact:</p> <p>None</p>
	<p>Low Impact:</p> <p>Shippers and National Grid NTS</p>

Contents		 Any questions?
1	Summary	3
2	Governance	4
3	Why Change?	4
4	Code Specific Matters	5
5	Solution	5
6	Impacts & Other Considerations	6
7	Relevant Objectives	7
8	Implementation	7
9	Legal Text	8
10	Recommendations	8
Timetable		 0121 288 2107
The Proposer recommends the following timetable:		Proposer: Debbie Brace National Grid NTS
Initial consideration by Workgroup	05 January 2017	 enquiries@gasgovernance.co.uk
Workgroup Report presented to Panel	19 January 2017	 deborah.brace@nationalgrid.com
Draft Modification Report issued for consultation	19 January 2017	 01926 653233
Consultation Close-out for representations	10 February 2017	Transporter: National Grid NTS
Final Modification Report available for Panel	13 February 2017	
Modification Panel decision	16 February 2017	

1 Summary

What

The UNC currently prescribes that National Grid NTS should run annual tenders in order to purchase and dispose of Operating Margins Gas, which has not changed since the inception of Code. This Modification proposes to enable National Grid NTS to use other trading mechanisms in addition to tenders.

Why

UNC TPD Section K Operating Margins was based on the prevailing market conditions when the code was created 20 years ago and no longer reflects the current climate. There have been a number of changes to the market conditions such that the number of tenders received has reduced significantly as has the use of Operating Margins Gas. The process has been to accept the highest price tender, irrespective of whether a higher price could be achieved by selling through other routes e.g. Over The Counter (OTC) or exchange. It is not economic or efficient to limit the way in which the Operating Margins Gas is procured or disposed of. National Grid NTS is obligated under its licence, Special Condition 8C.2, to procure its Operating Margins requirements in an efficient manner. This Modification seeks to enable National Grid NTS to procure and dispose of Operating Margins Gas in a more efficient and economical way.

How

In future National Grid NTS proposes it will look to achieve the best price for procuring and disposing of Operating Margins Gas by having the ability to utilise a range of trading mechanisms which are the OTC and OCM in addition to tenders. There will be small amendments to conditions within UNC TPD Section K, to facilitate the change in process.

2 Governance

Justification for Urgency, Authority Direction or Self-Governance

Self-Governance is proposed as this Modification is seeking change that may result in a minor reduction in costs for shippers (up to £90k per annum) and an update to the process to be more reflective of the current market, it is therefore unlikely to have a material effect on competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed.

Fast Track Self-Governance Criteria

This modification is not suitable for Fast Track Self-Governance as it is not properly a housekeeping modification required as a result of some error or factual change.

Requested Next Steps

This modification should:

- be subject to self-governance; and
- be assessed by a Workgroup

There are no material effects based on the self-governance materiality assessment¹.

3 Why Change?

National Grid NTS purchases Operating Margins (OM) on an annual basis in line with both UNC Section K and obligations described in the National Grid Gas Safety Case in respect of the NTS (the Safety Case). The Safety Case places an obligation on National Grid Gas to maintain OM at levels and locations determined throughout the year.

The OM service is used to maintain system pressures in the period before other system management services become effective (e.g. national or locational balancing actions). A further quantity of OM is also procured to manage the orderly run-down of the system in the event of a Network Gas Supply Emergency.

Where National Grid NTS contracts for Operating Margins Capacity at a gas storage facility, National Grid NTS must purchase gas for injection or transfer into the facility. The Operating Margins requirements at each Operating Margins Facility vary over time resulting in the need to procure additional Operating Margins Gas, dispose of surplus Operating Margins Gas or transfer Operating Margins Gas between different Operating Margins Facilities.

When Operating Margins are utilised, the result is a withdrawal of Operating Margins Gas at an Operating Margins Facility and need to refill the Operating Margins Facility, in preparation for a future Operating Margins event.

¹ <http://www.gasgovernance.co.uk/sites/default/files/UNC%20-%20Self%20Governance%20Guidance%20v1.0.pdf>

Such activities to procure, dispose and transfer Operating Margins Gas are often referred to as “reprofiling”.

UNC TPD Section K Operating Margins was originally based on the prevailing market conditions when the code was created 20 years ago, and no longer reflects the current climate. There have been a number of changes to the market conditions such that the number of tenders received has reduced significantly as has the use of Operating Margins Gas. The current process within UNC TPD Section K limits the method to tenders only that can be used to procure or dispose of gas. The highest price tender has to be accepted, irrespective of whether a higher price could be achieved by selling through other routes e.g. via Over the Counter (OTC) or by using an exchange.

What the drivers are and which parties are impacted

This Modification seeks to enable National Grid NTS to improve the process to procure and dispose of gas in a more efficient and economical way. The drivers for changing UNC to allow National Grid NTS to use other ways of procuring or selling gas are:

- Process is limited by UNC prescribing that only tenders should be used;
- Less competitive prices offered through tenders versus other options (OTC or exchange) and a reduction in the number of tenders received;
- National Grid NTS licence directs that it operate in an efficient and economical way;
- Benefit to shippers of approximately £30k to £90k per annum which feeds through into the Closing Margins Adjustment Charge (UNC TPD Section K 4.4.5);

The Modification has no impacts on either National Grid NTS or Xoserve systems and the effects on National Grid NTS processes and procedures are negligible.

What the effects are should the change not be made

The Modification provides an improved method to manage the process for the procurement and disposal of Operating Margins Gas. Although, this Modification has a low impact it would benefit as a slightly more economical and efficient operation of the market.

4 Code Specific Matters

Reference Documents

http://www.gasgovernance.co.uk/sites/default/files/TPD%20Section%20K%20-%20Operating%20Margins_4.pdf

Knowledge/Skills

No additional skills or knowledge is required to assess this modification.

5 Solution

It is proposed that a minor change to Code is made to allow National Grid NTS to utilise other methods to procure and dispose of Operating Margins Gas at its own discretion, such as the exchange or OTC to

allow the existing process to become fit for purpose.

In order to allow National Grid NTS to procure and dispose of gas outside the tender process, amendments are expected to be required to UNC TPD Section K Operating Margins conditions 3.3.7, 3.7.2 (g) and 3.7.4.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

None

Consumer Impacts

None

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

The systems required for the tender process and sale of gas are already in place via the exchange or OTC. Therefore, there are no systems changes required only minor amendments to the process for reprofiling and SMPS by National Grid NTS.

User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.	Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	Not applicable

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters	None
c) Efficient discharge of the licensee's obligations	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	None
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers	None
f) Promotion of efficiency in the implementation and administration of the Code	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	None

This Modification would further Relevant Objective c) Efficient discharge of the licensee's obligations, because it will enable National Grid NTS to deliver an efficient and economical solution for reprofiling Operating Margins Gas in storage as per its licence condition.

8 Implementation

As self-governance procedures are proposed, implementation would be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

9 Legal Text

Legal text and Legal Text Commentary will be drawn up by National Grid NTS for the appointed Workgroup meeting date in accordance with the Legal Text Guidance Document.

Text Commentary

To be provided

Text

To be provided

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that self-governance procedures should apply
- Refer this proposal to a Workgroup for assessment