

UNC Modification Proposals 0541, 0541A and 0541B **National Grid NTS Workgroup Actions**

0901: National Grid NTS (JG) to articulate how the system could be out of balance and how this would have to be managed.

Following the Business Rules session on 18th September 2015 our understanding of the Proposals has now increased.

We now understand that **Delivery Flow Notifications (DFNs)** submitted in respect of all sub-terminals will be provided for a 5 to 5 gas day and all **Nominations** will be submitted by Shippers for a 5-5 gas day as required by the UNC and will reflect the quantities in which and rates and times at which the user intends or expects to deliver gas to the NTS.

Further, we understand that all three Proposals seek to adjust a User's commercial balancing position *after the day* by revising the User's **allocation** (and the identified consequential charges).

If these assumptions are correct then as National Grid uses the **Delivery Flow Notifications (DFNs)** and **Nominations** to balance the network we do not anticipate any impact on within-day physical balancing decision process and consequently our residual balancing incentive scheme.

However, we note the aspiration in all three proposals to add a 'reasonable endeavours' clause in respect of **Nominations** under TPD Section C. Scheduling charges, which are intended to incentivise accuracy of information in nominations, relate to a 5 to 5 day. If the shipper nominates a quantity notionally based on a 6 to 6 day, the information will be misleading for National Grid.

If, for example, a User sought to meet a demand increase during a 5 to 5 gas day (D), by nominating increased deliveries (to meet this demand increase) from a producer in the last 2 hours of a 6 to 6 gas day, one half of the additional gas would be delivered on the following (5 to 5) day, D+1. National Grid will (other things being equal) observe the system shortfall for D and will be more likely take a balancing action (buy) on D for the part of the demand increment for D not met by the User. It will also be more likely to take a further balancing action (sell) on D+1, to shed the oversupply by the shipper on D+1. The potential increased use of balancing actions on this basis could impact on incentive performance depending upon the price at which such actions are taken.

0904: National Grid NTS(JG) to refresh the DECC Working Group analysis (October 2014 – July 2015).

We are currently undertaking this analysis and will provide it as soon as we complete it. We are looking to utilise data from the latest 12 month period available, likely to be September 2014 to August 2015. We expect to be in a position to provide the analysis in time for review and discussion at the Workgroup meeting on 5th November 2015.

0906: National Grid (JG) to provide a summary on the use of SAP prices to be articulated for the Workgroup Report.

The current version of the minutes from the 2nd September 2015 Workgroup shows this as a Workgroup action, not solely National Grid NTS, however we are happy to provide the following information:

System Average Price (SAP) is the sum of all Balancing Transaction Charges divided by the sum of the Market Transaction Quantities and Non- Trading System Transaction Quantities for all Balancing Transactions respectively effected in respect of that Day.

Each User is incentivised to maintain a balance each day between the quantities it inputs to the system for that day and the quantities it offtakes from the system for that day. The incentive works by levying imbalance charges for the difference on the following basis:

- for Users with supply in excess of demand, at a unit cost below the system average price (**System Marginal Sell Price**); and
- for Users with demand in excess of supply, at a unit cost premium above the system average price (**System Marginal Buy Price**).

The System Marginal Sell Price is set on the basis of the lower of:

- SAP minus the Default Cashout Differential; and
- the lowest priced 'sell'* trade by National Grid as residual system balancer

The System Marginal Buy Price is set on the basis of the higher of:

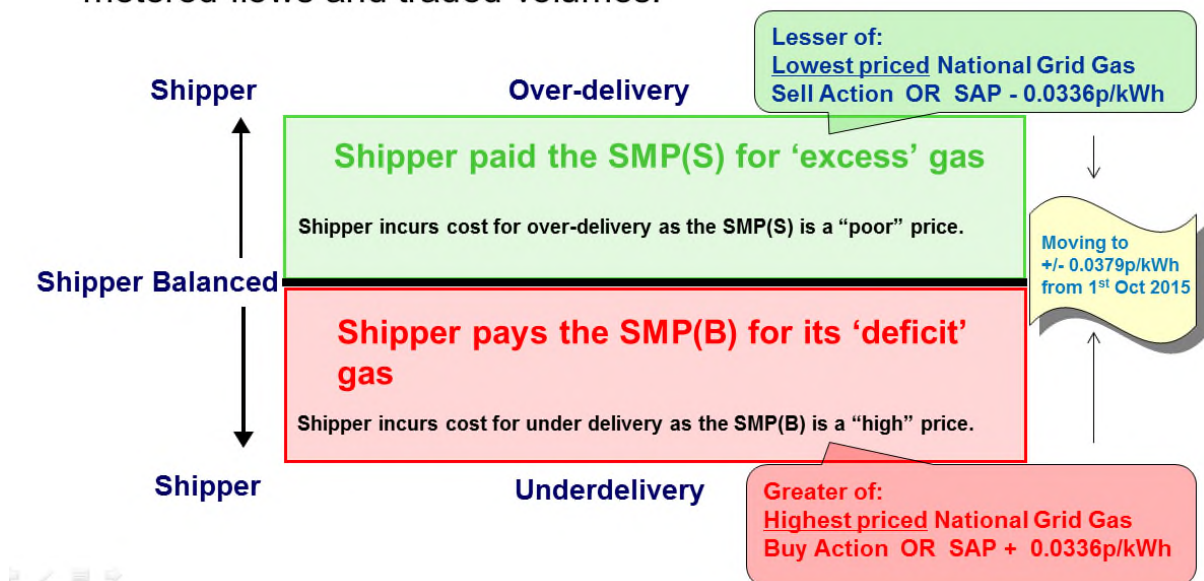
- SAP plus the Default Cashout Differential; and
- the highest priced 'buy'* trade by National Grid as residual system balancer

* 'buy' and 'sell' aspects only apply from 1st October 2015 as per UNC Modification 0494.

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Imbalance Cashout

- Imbalance charges (Cashout) – incentive on shippers to balance. It is based on physical allocations derived from metered flows and traded volumes.



0907: National Grid NTS (JG) to consider and provide justification for User Pays.

The User Pays Guidance Document published on the Joint Office of Gas Transporters website (page 3) states that:

“It is envisaged that any Modification Proposal which has the potential, or where it cannot be ruled out, to incur incremental Transporter Agency costs (associated with any Transporter

Agency systems or processes) and/or creates or amends a User Pays Service¹, will be classified as a User Pays Modification Proposal.

Where there is the potential for incremental costs to be incurred by the Transporters' Agency during the analysis stage, implementation stage and / or ongoing support for a User Pays Service (which may include development/implementation) connected to a Modification Proposal, the Modification Proposal shall be classified as a User Pays Modification Proposal.

Where during development of a Modification Proposal the Proposer is made aware or becomes aware that the Modification Proposal will require changes to the Transporter Agency's systems or processes, that result in incremental costs being incurred by the Transporter's Agency and/or creates/amends a User Pays Service, then the Proposer should amend the Modification Proposal such that it takes the form of a User Pays Modification Proposal prior to the Modification Proposal entering the Consultation Phase."

On the basis of the above, and the likely requirement to make changes to Transporter Agency Systems (in respect of 0541A and 0541B), it is National Grid NTS's opinion that 0541A and 0541B are User Pays Modifications and that the principal beneficiaries of the removal of certain UNC charges are those Shipper Users that would utilise this service. For this reason it is National Grid NTS's view that such a User Pays service should be funded by those Shipper Users that utilise the service.

Proposed wording changes in the two Proposals are as follows and are subject to appropriate costs assessments by the Transporters' Agency.

¹ As per UNC TPD 1.7.13 'For the purposes of the Code, "User Pays Service" is a service of a type described as Code service in Appendix 1 of the Agency Charging Statement'.

0541A

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	<p>The implementation of functionality to adjust a relevant User's "Time Shift Charges" prior to being invoiced would require changes to the Transporter Agency systems and processes and the Transporter Agency would incur incremental Transporter Agency costs.</p> <p>On this basis, implementation would create a User Pays Service and therefore the Modification Proposal should be classified as a User Pays Modification Proposal.</p>
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.	<p>Users of the service will be those Shipper Users with entry allocations [input nominations] at the relevant Entry Points ("GMT Terminals") as recipients of the adjustments proposed. On this basis the proposed split of the recovery between Gas Transporters and Users for User Pays is 100% Shipper Users.</p>
Proposed charge(s) for application of User Pays charges to Shippers.	<p>It is proposed that costs will be recovered annually. Each User with allocations [input nominations] at the relevant entry points ("GMT Terminals") will pay a charge based on their proportion of the total flows allocated [nominated] i.e. over each 12 month period (from 1st October 2015 on the basis that this is the earliest date in respect of which adjustments under this Proposal will be processed).</p> <p>The costs attributable to the solution will be recovered over [x] years. [Any ongoing costs?].</p>
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	<p>System and process changes: In the range [£x to £y]</p>

0541B

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	<p>The implementation of functionality to adjust a relevant User's "Time Shift Charges" subsequent to the issue of the original invoices for the relevant period require changes to the Transporter Agency systems and processes and the Transporter Agency would incur incremental Transporter Agency costs.</p> <p>On this basis, implementation would create a User Pays Service and therefore the Modification Proposal should be classified as a User Pays Modification Proposal.</p>
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.	<p>Users of the service will be those Shipper Users with entry allocations [input nominations] at the relevant Entry Points ("GMT Terminals") as recipients of the adjustments proposed. On this basis the proposed split of the recovery between Gas Transporters and Users for User Pays is 100% Shipper Users.</p>
Proposed charge(s) for application of User Pays charges to Shippers.	<p>It is proposed that costs will be recovered annually. Each User with allocations [input nominations] at the relevant entry points ("GMT Terminals") will pay a charge based on their proportion of the total flows allocated [nominated] i.e. over each 12 month period (from 1st October 2015 on the basis that this is the earliest date in respect of which adjustments under this Proposal will be processed).</p> <p>The costs attributable to the solution will be recovered over [the first 2 years]. [Any ongoing costs?].</p>
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	<p>System and process changes: In the range [£x to £y]</p>