

Draft Transport Working Group Response to National Grid Letter

The Workgroup has considered carefully the impact of the EU Regulations on network users using sub terminals that continue to operate on a 0600 hours to 0600 hours gas day ("**Affected Terminals**") and National Grid as Transmission System Operator.

The Workgroup has concluded that, without the proposed Modifications, neither National Grid nor network users at Affected Terminals will be able to comply with the Regulations.

The Gas Day changes are required by Regulation (EC) No 715/2009 of the European Parliament dated 13 July 2009 ("**2009 Regulation**") and Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks ("**BAL Code**"). The BAL Code forms part of the 2009 Regulation.

The relevant principles that the 2009 Regulation seeks to achieve are set out in the 2009 Regulation and repeated in the BAL Code and are as follows:

1. Access rules to natural gas transmission systems to be **non-discriminatory** (Art 1(a) 2009 Regulation and Recital 4 BAL Code)
2. Balancing Rules to reflect **genuine system needs** (Art 21.1 2009 Regulation and Art 4.2 BAL Code)
3. Imbalance charges to be **cost reflective** to the extent possible and shall take account of the prices associated with the TSO's balancing actions (Art 21.3 2009 Regulation and Art 19.3 BAL Code)
4. Imbalance charges shall act as **appropriate incentives on network users to balance** their input and offtake of gas (Art 21.3 2009 Regulation and Art 4.2 BAL Code)
5. Imbalance charges shall **avoid cross subsidisation** between network users (Art 21.3 2009 Regulation)
6. Imbalance charges shall **not hamper the entry of new market entrants** (Art 21.3 2009 regulation)

The BAL Code further sets out at Art 21 how to calculate daily imbalances (inputs – offtakes) and calculate imbalance charges (Art 22).

Given that post 1st October 2015 at Affected Terminals:

1. day ahead, within day and post day flow information will only ever be available to users of those terminals on a 0600 hours to 0600 hours basis and they will therefore have to schedule to National Grid on a 0600 hours to 0600 hours basis;
2. National Grid will use an 0500 hours to 0500 hours metered Daily Quantity for the Affected Terminals;
3. network users inputting gas into the NTS at Affected Terminals will have their NTS input quantities artificially adjusted after the day so as to reconcile the 0600 hours to 0600 hours terminal numbers to the National Grid 0500 hours to 0500 hours Daily Quantity;

4. such network users will, in addition to any imbalances arising from failures to physically flow to scheduled quantities, consequently be out of balance long or short every day due solely to such hour adjustment ("**Time Shift Adjustments**");
5. such network users will, unless Modification to the UNC is achieved, incur imbalance charges (SMBP, SMSP, Scheduling and Overrun Charges) every day as result of the Time Shift Adjustments (please note that if the UNC is applied by National Grid as currently drafted these imbalance charges **will be** incurred, it is not merely a question of network users "feeling" they may be exposed to increased system clearing imbalance risks);
6. as explained at paragraph 4, the Time Shift Adjustments are not a result of actual physical flows of gas into the NTS and the mass balance of the NTS nor any balancing actions taken by National Grid but are solely a result of the differences between the 0500 hours to 0600 hours aggregate flows of gas through an Affected Terminal on day 1 and the 0500 hours to 0600 hours aggregate flows of gas through the Affected Terminal on day 2; and
7. monies raised from the imbalance charges levied by National Grid arising from Time Shift Adjustments will be returned to all network users entering and exiting gas to and from the NTS through the neutrality charge regimes not just to network users at Affected Terminals (please note that network users at non Affected Terminals will not incur additional financial risk as a result of the proposed Modifications but rather without the Modifications will receive "windfall gains");

then, unless the UNC is modified,:

1. any imbalance charges levied on network users as a result of Time Shift Adjustments would **not arise as a result of genuine system needs** nor would they relate to network users intended flows, resulting in National Grid and network users failing to comply with Art 21.1 2009 Regulation and Art 4.2 BAL Code;
2. imbalance charges arising from Time Shift Adjustments will therefore **not incentivise shippers to balance**, resulting in National Grid and network users failing to comply with Art 21.3 2009 Regulation and Art 4.2 BAL Code;
3. since National Grid will take no balancing actions in respect of Time Shift Adjustments, the resulting imbalance charges will **not be cost reflective**, resulting in National Grid and network users failing to comply with Art 19.3 BAL Code;
7. network users at non Affected Terminal will not bear these additional imbalance charges arising solely from Time Shift Adjustments so network users using Affected Terminals will **be discriminated against**, resulting in National Grid and network users failing to comply with Art 1(a) 2009 Regulation and Recital 4 BAL Code; and
4. monies raised by National Grid from these imbalance charges will be returned to all network users entering and exiting gas to and from the NTS through the neutrality charge regimes not just to network users at Affected Terminals so there will be **cross subsidisation** of all network users by those at Affected Terminals, resulting in National Grid and network users failing to comply with Art 21.3 2009 Regulation.

Without any correction of the unjustified imbalance charges there will be wider impacts on the industry falling out from the risks to beach trading (and NBP swaps). It is evident that liquidity in these markets will likely be diminished, which in turn will frustrate true price discovery and the

delivery of gas to consumers at the most cost effective price. Beach trading and swaps permit shippers to optimise their portfolios so that deliveries into the system can be managed most effectively, in terms of location, volume and price.

We note that some of the proposed Modifications may make it harder to comply with some of the details in Articles 21 and 22 of BAL Code but, in the case of any such inconsistencies, complying with the principles set out in the 2009 Regulation and the BAL Code should take precedence over the details of the BAL Code. Unless the Affected Terminals change their gas day or National Grid enters into operational balancing arrangements with the Affected Terminals, the Workgroup cannot see anyway to comply with both principles in the 2009 Regulation and all provisions of the BAL Code if the UNC is applied as currently drafted.

Given that, without the Modifications, National Grid will not be in compliance with the 2009 Regulation, the Workgroup considers that RIIO-T1 EU market facilitation funding is appropriate.