



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

Workgroup
5th November 2015

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
 - Reverse flows c.3% of forward flow in total in that period, c.£30k

Balancing Neutrality Solution

- Essentially a 'manual workaround' for modification 519
 - 519 will now be effective 1st May 2015
- 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
- Adjustments to be made monthly, following implementation date
 - EB Charges are invoiced at M+2
 - Ofgem decision date currently indicated: 4th December
 - 1st Adjustment Invoice will contain adjustments from 1st October 2015

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	<p>“Central arrangements” = Gemini and, in the context of IP's, the arrangements for reference conditions and allocations at IPs</p> <p>Misalignment of reference conditions / lack of automated correction in Gemini = ‘central arrangements’</p> <p>Unintended outcome of misalignment in EU Code implementation dates</p>
2. Combinations of circumstances could not have been reasonably foreseen	<p>Lack of alignment could not have been reasonably foreseen or anticipated by Shippers</p>
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	<p>Cumulatively material to BBL Shippers because of the 7 months period of misalignment</p>

Urgent Proposal

- Proposer requested 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

Ofgem granted Urgent status on 21st October

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

Impacts ?

- As for Mod 519, no change to UDQI/UDQO for any other purpose
 - No other charging impacts
- Financial:
 - Same financial outcome as mod 519
 - Energy Balancing Credit Risk
 - Risk that a User might incur imbalance charges which could lead to an EB credit issue /sanctions
 - Low likelihood given the relatively small daily values/materiality
 - Supports the argument for a monthly adjustment, asap
 - Suggested text seeks to ensure that any non-payment of (adjusted) EB charges is treated correctly
- Shrinkage
 - NG had identified that if Shippers tried to correct their imbalances:
 - the system would be physically slightly over-delivered
 - NG would purchase less Shrinkage
 - this would tend towards reducing SO Commodity Charge
 - NG further analysis confirms physical over-delivery not sufficiently material to impact SO Commodity Charge
 - Effectively, no material impact on shrinkage or SO Commodity

Proposed Steps / Timescales

<i>Initial discussion at Workgroup</i>	<i>was 1st October 2015</i>
<i>Request for Urgent Status</i>	<i>14th October 2015</i>
<i>Normal Mod Panel Meeting (Recommendation on Urgency)</i>	<i>15th October 2015</i>
<i>Ofgem decision on Urgency (by)</i>	<i>22nd October 2015</i>
<i>Workgroup meeting</i>	<i>5th November 2015</i>
Refine text in line with workgroup discussion	5th -10th November 2015
Modification issued for consultation (including suggested text)	10th November 2015
Final Date for Responses	17th November 2015
Final Mod Report published	18th November 2015
UNC Modification Panel recommendation	19th November 2015
Ofgem Decision (by)	4th December 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:



sue@tpasolutions.co.uk

07770 702966



arco.hofman@gasterra.nl

07770 702966