

Representation - Draft Modification Report 0541A/B

Removal of uncontrollable UNC charges at ASEPs which include sub-terminals operating on a 06:00 - 06:00 Gas Day

Responses invited by: **5pm 11 April 2016**

Representative:	Manda Goodwin
Organisation:	ConocoPhillips (UK) Ltd
Date of Representation:	11 April 2016
Support or oppose implementation?	0541A - Support 0541B - Support
Alternate preference:	<i>If either 0541A or 0541B were to be implemented, which would be your preference?</i> 0541A
Relevant Objective:	d) Positive g) Positive

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

As a consequence of the downstream gas day changing to 5-5, the industry proposed solution to mitigate the impact at terminals remaining 6-6 was a two-fold process. Firstly the introduction of the scaling algorithm (Option A) which was successfully implemented in October 2015. The second part of this solution was a removal of the uncontrollable charges experienced by shippers at the terminals remaining 6-6. Initially called Option B, Mods 541A and 541B were developed specifically to work alongside Option A, forming a complete solution to mitigate the uncontrollable impacts of the gas day change. Implementation of one of these Mods restores the level playing field between all shippers by removing the current unfair cross subsidy payments.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

The Mod should be implemented as soon as possible.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

Only minor administrative costs are expected.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: Respondents' views are requested on the applicability of User Pays arrangements, with supporting reasons.

User Pays arrangements should not be applied. These Mods are the second part of a solution designed to remedy the adverse and unnecessary consequences arising from the implementation of the European Network Codes and Mod 461.

Q2: Respondents' views on the six key areas of impact described in the Impact Assessment, in Section 4, of the Draft Modification Report are also invited.

Compliance with EU legislation:

With only the first part of the solution in place (only Option A), shippers at 6-6 terminals cannot accurately balance their daily flows. They are subject to discriminatory charges which do not provide an incentive for the shippers to balance, since the shippers are incapable of avoiding the time shift balances. As it stands, the EU requirement for shippers to balance their flows is impacted.

Once Mod 541 is implemented, shippers will be able to balance their daily flows and the overall principles of the EU legislation will once more be adhered to.

NTS Physical Needs:

The Mod should have no impact on the physical needs of the NTS.

Incentive to Balance:

Once Mod 541 is implemented, shippers will pay only for their real imbalances, will be able to control those imbalances, and thus the incentive to balance will re-emerge as a driver at 6-6 terminals.

Appropriateness of, and Impacts on, Scheduling Charges/Balancing Neutrality:

Shippers at 6-6 terminals are currently more exposed to uncontrollable scheduling charges than they were prior to the change in gas day. Shippers at 5-5 terminals can benefit from the smearing of those additional charges. This results in an unfair cross subsidy which disadvantages shippers at 6-6 terminals. This distortion of the market will be corrected once Mod 541 is implemented.

Effect on Competition:

The current situation of only having implemented the first half of the gas day solution has an adverse impact on the competition of the market at 6-6 terminals versus 5-5 terminals. This implementation of only part of the solution was never intended to persist. Without the complementing Mod 541, the market is distorted.

Justification for Retrospectivity:

When the initial discussions around the introduction of an industry solution to solve the Mod 461 problems took place, it was proposed that both Option A and Option B (now transformed into Mod 541) were introduced simultaneously to form a complete solution.

It is due to time and manpower constraints that Option B (Mod 541) had to be delayed until after Option A was introduced.

This Mod should be implemented to include retrospectivity because:

1. *The losses were directly attributable to a change in central arrangements.* There was a lack of understanding by policy makers with respect to the impact a change in gas day would have on the GB market.
2. *The circumstances could not have been reasonably foreseen.* Members of the energy industry, including policy makers, tend to live in either upstream or downstream silos. Consequently there were very few people capable of identifying the impacts at the interface.
3. *Where the possibility of retrospective action was clearly flagged in advance.* In joint meetings with DECC, Ofgem, National Grid and the industry, it was clearly concluded and recorded that whilst both legs of the solution needed to be implemented for a complete package, Option A needed to be concentrated upon and implemented as soon as possible and that would inevitably be prior to a Mod going through the lengthy workstream process. It was thus identified that this Mod would always have to be implemented later, even though it was a required part of the full solution.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No

Please provide below any additional analysis or information to support your representation