

UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 324 657 414">UNC 0788:</h1> <h2 data-bbox="134 454 1066 591">Minimising the market impacts of ‘Supplier Undertaking’ operation</h2>	<div data-bbox="1209 309 1469 629"> <div data-bbox="1209 309 1469 383">01 Modification</div> <div data-bbox="1209 394 1469 468">02 Workgroup Report</div> <div data-bbox="1209 479 1469 553">03 Draft Modification Report</div> <div data-bbox="1209 564 1469 638">04 Final Modification Report</div> </div>
<p data-bbox="129 683 507 719"><b>Purpose of Modification:</b></p> <p data-bbox="129 739 1441 931">To provide the ability for Suppliers who are operating under a Deed of Undertaking following the Termination of the Shipper User, to utilise other existing Shipper User relationships to source additional supplies of gas and make trade nominations to the Terminated Shipper User account to balance that portfolio and mitigate increased costs, until a new ‘Registered User’ is appointed.</p>	
<p data-bbox="129 981 308 1016"><b>Next Steps:</b></p> <p data-bbox="129 1034 973 1070">The Proposer recommends that this Modification should be:</p> <ul data-bbox="154 1079 1358 1151" style="list-style-type: none"> <li>• treated as Urgent and should proceed as such under a timetable agreed with the Authority</li> </ul>	
<p data-bbox="129 1281 399 1317"><b>Impacted Parties:</b></p> <p data-bbox="129 1337 956 1373">High: Suppliers, Shippers, National Grid NTS, Consumers</p> <p data-bbox="129 1391 199 1426">Low:</p> <p data-bbox="129 1444 218 1480">None:</p>	
<p data-bbox="129 1523 389 1559"><b>Impacted Codes:</b></p> <p data-bbox="129 1585 209 1621">None</p>	

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Timetable		
<b>Modification timetable:</b>		
Modification Proposal sent to Ofgem	19 October 2021	
Ofgem decision on Urgency	19 October 2021	
Modification Proposal issues for Consultation	19 October 2021	
Consultation Close-out for representations	20 October 2021	
Final Modification Report available for Panel	21 October 2021	
Modification Panel recommendation	22 October 2021	
Final Modification Report issues to Ofgem	22 October 2021	

 Any questions?


Contact:  
**Joint Office of Gas Transporters**

 [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

 0121 288 2107

Proposer:  
**Jennifer Randall, National Grid NTS**

 [Jennifer.randall@nationalgrid.com](mailto:Jennifer.randall@nationalgrid.com)

 07768 251404

Transporter:  
**National Grid NTS**

 [Jennifer.randall@nationalgrid.com](mailto:Jennifer.randall@nationalgrid.com)

 07768 251404

Systems Provider:  
**Xoserve**

 [UKLink@xoserve.com](mailto:UKLink@xoserve.com)

## 1 Summary

### What

Where a terminated Shipper User provides shipping services for one or more Suppliers, such Suppliers are required by their Supplier Licence to make timely arrangements with a new Shipper User to act as the Registered User for their respective consumers ('Supply Points').

Whilst immediate continuity of shipping arrangements at all Supply Points is the preferred outcome, there may be a period during which no replacement Shipper User is appointed (or the transfer to the Shipper has not completed) for the Supply Points which were registered to the Terminated Shipper User ("Terminated Supply Meter Points"). In which case the Supplier may operate under a Deed of Undertaking hereafter referred to as 'Supplier Undertaking'. All Suppliers must enter into a Supplier Undertaking pursuant to Condition 18 of the Supplier Licence. This provides for the Supplier to pay the Transporter all relevant charges in relation to the gas taken out of its pipeline system from the date the Shipper User Termination takes effect, covering both Transportation Charges and Energy Balancing Charges.

A Terminated Shipper User may have been providing shipping services to a Supplier operating under the Supplier Undertaking who has an existing relationship with another Shipper User and who is willing to become the new Registered User for the Terminated Supply Meter Points. However, depending on the number of associated meter points, changing the Registered User from the Terminated Shipper User to the new Shipper User can take time. Only once these meter points are transferred does the existing Shipper User become the Registered User and take on the associated rights and obligations (including the ability to trade). In the time taken to change the Registered User, the 'Supplier Undertaking' arrangements will be in place.

### Why

The 'Supplier Undertaking' recognises that a Supplier will not have established commercial arrangements to secure delivery of gas to the Total System to balance the demand of its consumers. Hence the Energy Balancing Charges (payable by the Supplier pursuant to the Supplier Undertaking) operate on the assumption of the relevant Supplier delivering no (zero) gas to the Total System on each of the relevant days. Consequently, the Supplier is effectively required to pay for all its consumers' gas demand at a unit rate in excess of the average cost of gas (a process known as 'cash-out').

In the situation whereby a Terminated Shipper User had been providing shipping services to a Supplier who has an existing relationship with another Shipper User for the provision of gas to other Supply Points, that Shipper User could source gas to mitigate the deficit between demand and supply on the Terminated Shipper User's imbalance whilst the Registered User is amended. That Shipper User could source additional gas supplies by cost effective means, but currently has no way of attributing that gas to the correct supply portfolio. Instead, any additional gas sourced would be held on their portfolio as a 'long' imbalance and being cashed out at the SMP(Sell) price.

Alternatively, in respect of the physical delivery of gas, National Grid NTS in its role as residual balancer would typically take system buy balancing actions to incentivise the delivery of additional supplies to the Total System to meet the demand of the relevant Supplier(s) and ultimately consumers. In taking such actions, National Grid NTS, as the residual balancer, is held cash neutral.

As Shipper Users are individually incentivised to balance their supply and demand, the role of residual balancer was only ever envisaged to necessitate the 'fine tuning' of the net balancing positions of all Shipper Users (which are actively taking actions to balance their supply and demand) in order to maintain an operational balance. However, given the prevailing market conditions which has increased risk of Shipper User failure there is a material increase in the likelihood of National Grid NTS as residual balancer having to take

action in respect of securing material volumes of gas to meet the demand of the relevant consumers where a Supplier has to act in accordance with a Supplier Undertaking until a new Registered User is in place. By the residual balancer having to take this action, a higher SMP (Buy) price would be applicable which will increase costs to both Shippers and Suppliers operating under a Supplier Undertaking.

There is also a risk that the residual balancer would be unable to purchase the required volume due to a lack of liquidity as the residual balancer only has access to the On-the-day Commodity Market (OCM). The financial risk to the balancing neutrality account is also increased, given that there is a time-lag of up to two and a half months between settlement of energy balancing trades and subsequent recovery of the costs via Energy Balancing Charges. As the residual balancer trades set the System Marginal Prices (Buy and Sell) then this will both increase the cashout prices for Shipper Users and increase system prices for all Users.

## How

Where:

- a Shipper User has been terminated which results in a Supplier operating under its Supplier Undertaking in respect of Terminated Supply Meter Points, and
- where that Supplier has arrangements in place with another Shipper User for the provision of gas to Supply Meter Points other than the Terminated Supply Meter Points, and
- for so long as a Registered User remains absent in respect of any of the Terminated Supply Meter Points

it is proposed that the Supplier shall be eligible to make arrangements with an existing Shipper User to deliver gas to the Total System to satisfy (in whole or in part) the demand of all of the Terminated Supply Meter Points associated to that Supplier.

Additional gas delivered by such Shipper User may be traded at the NBP to the terminated Shipper User whose Gemini account shall be kept open by the CDSP for this purpose and settled by the Supplier, thereby enabling such gas to contribute towards the demand of the Terminated Supply Meter Points and reducing the quantity of gas in respect of which the Supplier would otherwise be charged for at the SMP buy price.

To enable this, a change to the Supplier Undertaking will be required to recognise that the Supplier can arrange for gas to be delivered to reduce its Energy Balancing Charge for the Terminated Supply Meter Points.

Upon the request and confirmation of the Supplier, the CDSP shall use reasonable endeavours to provide to this Shipper User a copy of the Terminated Supplier Meter Point Information (as defined in UNC TPD Section G 4.2.2(f)) to enable them to determine the quantity of demand associated to the terminated Shipper User account and therefore the volume gas to be supplied to the network and of the trade nomination to be made. Relevant provisions in UNC shall be made to give the existing Shipper the vires to trade into the Terminated Shipper Users account.

The Shipper User shall then trade to the Terminated Shippers account at the day ahead stage. Depending on the status of the Terminated Shippers account, a relevant party (either the CDSP or National Grid NTS) shall act on behalf of that account to complete any commercial transactions associated with the trade.

## 2 Governance

### Justification for Urgency

Ofgem's open letter dated 17 February 2016, specifies guidance for the circumstances under which a Modification Proposal would be considered for Urgent procedures. This specifies that an Urgent Modification

should be linked to an imminent or current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholders, a significant impact on the safety and security of the electricity and/or gas systems, or cause a party to be in breach of any relevant legal requirements.

There is currently a heightened risk of Shipper Users ceasing to trade which may ship gas for multiple Suppliers. If these Suppliers elect to operate under their 'Supplier Undertaking' (explained in the Why Change? Section 3, below) then there would be no User delivering gas to the system to meet the demand of these Supply Points, thereby generating a national supply / demand imbalance assuming all other Users were balanced.

Under its role as Residual Balancer when National Grid NTS buys gas under this role it sets the System Marginal Buy price which Suppliers operating under the Supplier Undertaking will be exposed to under their imbalance charges as well as Shippers who are short on any day. This will impact the costs incurred by these parties as well increasing overall industry costs.

In its role as Residual Balancer National Grid NTS only has access to the On-the-day Commodity Market (OCM). However, Shipper Users have a more diverse supply portfolio and therefore would be better placed to source the gas at the most efficient price, providing the lowest cost outcome for Suppliers, Shippers and ultimately consumers. Furthermore, if National Grid NTS acting as the residual balancer were to procure gas on the OCM to cover the shortfall, the financial risk to the balancing neutrality account (from which payment is made to the counter-party 2 days after execution of such balancing trades) is increased.

We therefore believe that if this Modification is not implemented urgently, there is a risk of a significant commercial impact on parties. Further, if other Users were to cease trading in similar circumstances vis-à-vis Suppliers, a risk of a significant impact on the operation of the gas system and gas markets.

### Requested Next Steps

This Modification should:

- be treated as Urgent and should proceed as such under a timetable agreed with the Authority.

Given the current prevailing market conditions in the gas shipping and gas supply markets driven by the rapid increase in commodity prices, the issue highlighted in this Proposal needs to be addressed as a matter of urgency and such a timescales did not enable any pre-modification engagement.

## 3 Why Change?

### Background

In the event of the Termination of a Shipper User, any Suppliers utilising the services of that Shipper User are notified of such Termination. In these circumstances, Supplier Licence Condition 18.4 requires Gas Suppliers to "take all reasonable steps" to appoint a replacement Shipper User for its customers within 25 working days of receiving notice of the Termination of the Shipper User.

If such a Supplier does not immediately appoint a replacement Shipper User for the consumers it supplies, under the terms of Supplier Licence Condition 18.1 it is required to:

- Provide the appropriate security to the Transporter; and
- Pay the Transporter all relevant charges for gas taken out of its pipeline system from the date the Termination of the Shipper User takes effect.

The above referenced Supplier agreement to provide security and make payments to the Transporter is known as the 'Supplier Undertaking' and under the terms of Supplier Licence Condition 18.2, all Suppliers are required

to provide such an undertaking to the Relevant Gas Transporters (i.e. to those networks utilised to convey gas to the relevant consumers).

The current terms of the Supplier Undertaking (including those made to National Grid NTS) set out that, in respect of Energy Balancing charges, the relevant Gas Supplier pay such charges as if the shipper concerned (i.e. the Shipper User now terminated) had *“not at any time during the relevant period introduced or arranged to be introduce any gas into National Grid NTS’s pipeline system”*. Accordingly, the Supplier is assumed to have delivered no (i.e. zero) gas to the system to balance the demand of the consumers it supplies.

As a consequence, the relevant Supplier is required to pay a ‘cash out’ charge at the System Marginal Price (buy) (i.e. at a rate higher than the System Average Price) in respect of the volume of demand of the consumers it supplies. In practice, under current arrangements and assuming all other Shipper Users in the market match their supply and demand, responsibility for securing the delivery of the gas to the Total System (for the required volumes) falls on National Grid NTS in its role as residual balancer for the Total System. This will also increase the imbalance costs for Shippers who are short as they will be charged based on the SMP(buy) price.

In its role as residual balancer, National Grid NTS only has access to the On-the-day Commodity Market (OCM) and therefore meaning Shipper Users have a more diverse supply portfolio and therefore would be better placed to source the gas at the most efficient price, providing the most optimal outcome for Suppliers, Shippers and ultimately consumers.

If National Grid NTS acting as the residual balancer were to procure gas on the OCM to cover the shortfall, there is a increased risk to the balancing neutrality account (from which payment is made to the counter-party 2 days after execution of such balancing trades). Energy Balancing charges are invoiced monthly, being levied at the start of the second month following the month in which trades were executed, with payment being due later in that month (for example, Energy Balancing Invoices for the month of October would be issued in early December).

## Recent Events

The potential exposure of Suppliers (acting pursuant to a Supplier Undertaking) to Energy Balancing Charges at the System Marginal Price (buy), was expected to act as an incentive for Suppliers to secure arrangements with a new Shipper User at the earliest opportunity if its existing Shipper User is terminated. However, recent experience has demonstrated this is not necessarily the case.

The current ‘challenging’ commercial environment in both gas shipping and gas supply has increased the risk of further gas Suppliers needing, or electing, to operate in accordance with an Undertaking for a transitional period and presents concerns relating to the impact of System Marginal Price (buy) on Suppliers, Shippers and ultimately consumers, access to markets and the neutrality account.

## Rationale for Proposed Solution

This proposed solution aims to mitigate some of the Supplier imbalance, and therefore increased costs incurred through paying the cash-out charge at the System Marginal Price (buy). Under this proposal, where the Terminated Shipper User has been providing shipping services to a Supplier who has an existing relationship with another Shipper User, that Shipper User could source gas and make trade nominations to the Terminated Shipper User account to offset some of the shortfall between demand and supply in the relevant portfolio. This would enable Suppliers to be in control of and minimise the SMP (buy) cashout exposure that the Supplier would face.

We believe this proposal has several benefits:

- notwithstanding National Grid NTS’s role as residual balancer, Shipper Users, as a collective, have the primary role of balancing their own portfolios and hence maintaining system balance and are therefore

best placed to secure potentially material quantities of additional supplies to the system (at an optimal cost) to cover the demand from Supply Point portfolios;

- procurement of additional supplies by Shipper Users are likely to have less of an impact on the System Average Price and no impact on System Marginal Prices compared to actions taken by National Grid NTS in its residual balancing role;
- the residual balancer role was envisaged to address a net volume of ‘fine-tuning’ imbalance as a consequence of shippers being required and incentivised to individually maintain a balance and was not envisaged to procure additional gas to meet the requirement of supply points who are temporarily without a Registered User and whose suppliers do not have the commercial capability to deliver gas to the Total System;
- although a standalone modification this proposal also supplements the proposed UNC Modification “Energy Balancing Arrangements During the Operation of a Supplier Undertaking to Transporters” by minimising the volume of additional supplies to the Total System required to balance the demand of consumers supplied by any Supplier who is acting in accordance with a Supplier Undertaking;
- utilises existing Shipper User / Supplier contractual relationships; and
- it attributes the trade nominations to the correct supply portfolio for the time it takes to change Registered Users.

## 4 Code Specific Matters

### Reference Documents

Gas Supplier Licence in the Ofgem [e-public register](#)

[TPD V4: Discontinuing Users and Termination](#)

[TPD E5: Imbalance](#)

## 5 Solution

Where:

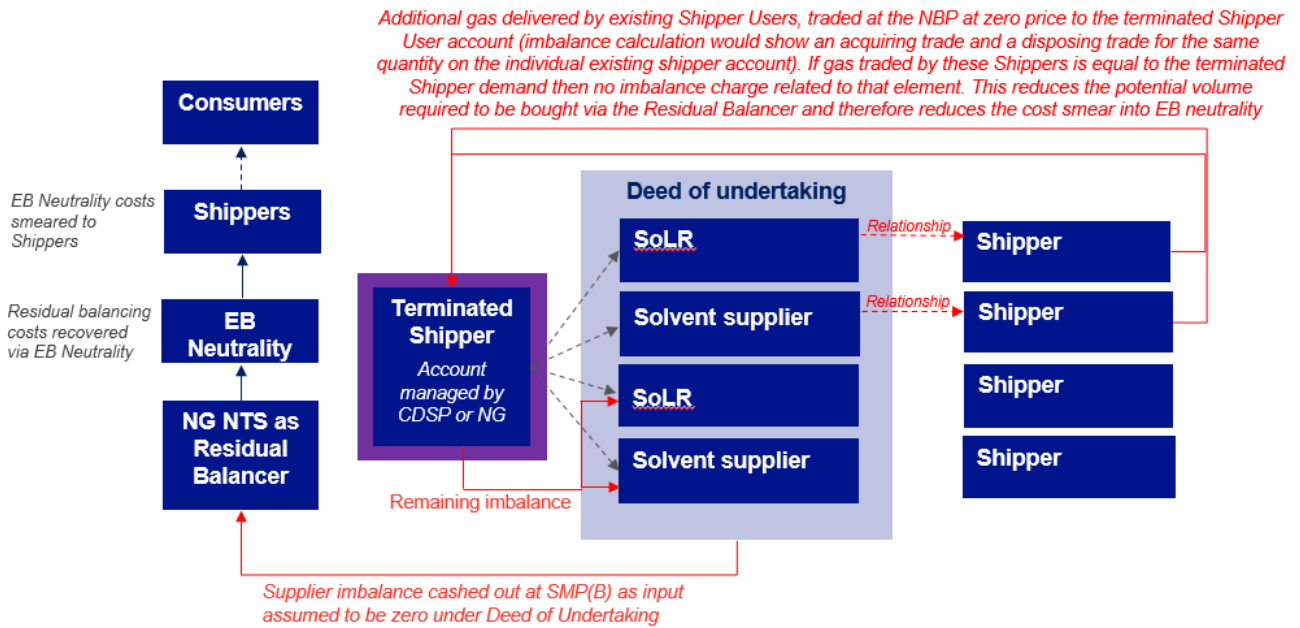
- a Shipper User has been terminated which results in a Supplier operating under its Deed of Undertaking in respect of Terminated Supply Meter Points, and
- where that Supplier has arrangements in place with another Shipper User for the provision of gas to Supply Meter Points other than the Terminated Supply Meter Points, and
- for so long as a Registered User remains absent in respect of any of the Terminated Supply Meter Points

it is proposed that the Supplier shall be eligible to make arrangements with such other Shipper User to deliver gas to the Total System to satisfy (in whole or in part) the demand of the Terminated Supply Meter Points.

Additional gas delivered by such Shipper User may be traded at the NBP to the terminated Shipper User whose Gemini account shall be kept open by the CDSP for this purpose, thereby enabling such gas to contribute towards the demand of the Terminated Supply Meter Points and reducing the quantity of gas in respect of which the Supplier would otherwise be charged for at the SMP buy price.

- Upon the request of the Supplier, the CDSP shall use reasonable endeavours to provide to the existing Shipper User a copy of the Terminated Supplier Meter Point Information (as defined in UNC TPD Section G 4.2.2(f))
- Relevant provisions in UNC shall be made to give the existing Shipper the vires to trade into the Terminated Shipper Users account.
- At the day ahead stage, the existing Shipper shall trade the volume of gas into the Terminated Shipper Users account.

The below diagram illustrates how this solution would work in practice and illustrates the cash-flow benefits.



## 6 Impacts & Other Considerations

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

No

### Consumer Impacts

Under existing arrangement, the costs of Residual Balancing actions are currently socialised across all Shipper Users. The proposed approach would enable greater optimisation of those costs reducing the extent of such costs passed through to consumers.

**What is the current consumer experience and what would the new consumer experience be?**

Reduced charges in the event that, in aggregate, Shipper Users are able to secure the additional supplies at a lower cost than National Grid NTS as the residual balancer.



<b>Impact of the change on Consumer Benefit Areas:</b>	
Area	Identified impact
Improved safety and reliability	None
<p>Lower bills than would otherwise be the case</p> <p>If Shipper Users are able to secure the additional supplies at a lower unit cost than National Grid NTS as the residual balancer (such costs are passed through to Gas Shippers) this should reduce the extent of costs passed through to consumers</p>	Positive
Reduced environmental damage	None
Improved quality of service	None
<p>Benefits for society as a whole</p> <p>Implementation of this Modification would help to mitigate the current 'challenging' commercial arrangements</p>	Positive

**Cross-Code Impacts**

None

**EU Code Impacts**

None

**Central Systems Impacts**

None identified at this stage

## 7 Relevant Objectives

### Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	None
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.	Positive
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

The Modification furthers Relevant Objectives (a) and (d), as follows:

#### **a) Efficient and economic operation of the pipe-line system.**

The proposed changes in this Modification would introduce a more efficient and potentially more economic means of securing delivery of additional supplies of gas to the Total System to balance the demands from the consumers of a Supplier that is acting in accordance with a Supplier Undertaking. This affords Shipper Users a level of control over the costs of those potentially material volumes which it may be able to secure in a more efficient manner from sources not available to National Grid NTS as the residual balancer.

Provision of such additional supplies by Shipper Users as a collective will enable National Grid NTS to continue to focus on the role of the residual balancer within the current commercial frameworks in the most economic and efficient manner. This ensures that the residual balancing function delivers the intended service of fine tuning the aggregate imbalance on the Total System (from Shipper Users actively seeking to balance inputs and outputs) in absence of the further function of the procurement of additional gas supplies, effectively on behalf of failed Shipper Users.

#### **d) Securing of effective competition between relevant shippers;**

The proposed changes in this Modification are expected to provide a more efficient means of securing delivery of additional gas supplies to the Total System than would otherwise be the case with National Grid NTS acting as residual balancer, for the specific purpose of meeting the gas demand of a Supplier acting in accordance with

a Supplier Undertaking. Enabling Shipper Users as primary balancers to procure such volumes (as opposed to incurring a proportion of the residual balancing costs, the level of which are outside the control of the Shipper Users) enables greater optimisation of those costs thereby better securing effective competition between Shipper Users compared to the current arrangements.

## 8 Implementation

Implementation is sought as soon as practicable given the current difficulties being encountered within the gas shipping and gas supply markets and the highlighted potential impact on National Grid NTS as the residual balancer.

There is no lead time required for implementation hence this Modification could be implemented as soon as practicable following an Authority direction to implement it.

## 9 Legal Text

### Text Commentary

See additional document.

### Text

Legal Text has been published alongside this Modification.

## 10 Recommendations

### Proposer's Recommendation

This Modification should be treated as Urgent and should proceed as such under a timetable approved by the Authority.