

Representation - Modification UNC 0791 (Urgent) Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking

Responses invited by: **Midday on 24 December 2021**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Clare Manning
Organisation:	EON
Date of Representation:	22/12/2021
Support or oppose implementation?	Qualified Support
Relevant Objective:	a) Positive c) Positive d) Positive

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

We support the intention of this modification and what it sets out to achieve in the timescales required; indeed we are already witnessing perverse outcomes on the OCM as a result of National Grid Metering (NGM) purchasing in a long system. We believe that the proposed solution is the best option that can be achieved in the current circumstances, and will mean that shippers will receive a more systematically positive share of balancing neutrality. We don't however view this as an enduring solution, for example making the arrangements under Modification 0788 mandatory might be a better long term solution.

We firmly believe that these charges should include a new charge/separate line item on the IDB. Whilst we realise that this will mean additional (system) changes delivered via a UK Link change it would however mean that parties are able to differentiate between the charges and what relate to the new role and can therefore validate the costs (similar to Shrinkage). We have concerns that without this the charges are lost in the standard invoicing processes and validating of the invoices becomes a black box which cannot be replicated, which we see as an issue and leaves parties in a position where energy purchasing in this scenario becomes 'good faith' rather than a robust process which can survive scrutiny.

We support a full post implementation review of the process if approved, this is to ensure that the solution remains the best and most robust for the industry and not just a sticky plaster for the issue at time of approval/implementation.

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

We believe that the proposed solution and the additional line item on the IDB could be delivered in as little as 12 weeks and recognise the 9 week requirement to deliver the new role type into Gemini. As an urgent mod we support the best implementation window for industry and support the timings if the majority of industry and systems can be ready in this time. Should longer time be needed we believe this should be taken into account when setting the modification implementation date.

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

The costs for the new role would be minimal and would be our proportion of the ROM costs. We see little internal change needed for this activity.

Our request to add the charges into the IDB would however need additional resource to deliver and to validate the new charges, an activity which cannot be done if the file format remains as-is. If they are a new line item this will require system changes but not significant and as advised in the implementation section, we believe can be done on a slightly longer timescale to those for a new role type in Gemini.

We would also need to consider if there is any impact to our credit cover.

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

We are satisfied that the legal text will deliver the intent of the Solution. We however support a post implementation review of the text to ensure it is robust and fit for purpose.

We would like to see in more detail the timings which will be purchased for, however, we recognise this might be hard to define and would ask that as part of the process being trialled that legal text is reviewed to ensure it remains robust and in line with the activities being undertaken.

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

Q1: CPoSD role start trigger:

Do you believe the trigger of 10,000,000 kWh for commencement of the CPoSD role is appropriate? This figure of 10,000,000 kWh is considered to be a reasonable threshold for action to be taken separately to residual balancing, given that the average absolute shipper imbalance on days when no residual balancing trades were undertaken by National Grid NTS over the period 01/10/20 to 30/09/21 was 13.3GWh/day and was 13.1 GWh/day over the same period when the system was short of gas. If not, please justify your answer - do you have an alternative figure and why is this more appropriate?

We believe this is a sensible starting point but thresholds should be reviewed after the solution is first utilised and again after six months of use, or, six months after implementation even if it hasn't been utilised. This is to ensure it remains robust and considers current day market positions. We don't believe these numbers should remain in place if the evidence doesn't support them.

Q2: CPoSD role end trigger:

Do you believe the trigger of 100,000 kWh for ending of the role of the CPoSD is appropriate? A minimum volume of 100,000 kWh is proposed because this is approximately the minimum trade quantity available on the OCM. If not, please justify your answer.

As above.

Q3: CPoSD role performance

Considering the new role for National Grid NTS of CPoSD and the need for economic and efficiency in decision making, do you believe that the wording in the commentary (see below) relating to UNC Section D 6.3.4 "on an economic basis"

<i>New paragraph 6.3.4</i>	<i>And when purchasing gas under paragraph 6 National Grid NTS will aim to do so on an economic basis.</i>
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- i) has a legal definition,*
- ii) provides sufficient protection to industry or not and*
- iii) could have any unintended consequences or not?*

Please provide an explanation for each response.

i) Although a defined term is preferable to ensure it is utilised in a consistent way we recognise that "economic basis" can be subjective to the situation at the time and due to this we don't believe it needs to be a defined legal term at this time. We would support this being looked at as part of the post implementation review to ensure it is the best approach.

ii) We think the legal text needs to go further than that we require the CPoSD to "aim" to purchase gas on an economic basis. NGN's trading strategy will drive risk for suppliers and shippers and in acknowledgement of this, the obligation should be in the very least for the CPoSD to take all reasonable steps to purchase gas on an economic basis. As per the comments in the legal text section we would like to see more detail on the forward purchasing to ensure the economic basis is fulfilled.

Q4. CPoSD monitoring and audit

Do you have any views on an appropriate monitoring and audit process for this new CPoSD role?

We do believe that there should be some transparency in regards to the CPoSD trading strategy; this could be in the form of backing data provided alongside the invoice to illustrate how the relevant shipper's share has been calculated and the transactions that make up the charge. As referenced in our earlier response it should not be a black box which cannot be validated.

Shippers should be able to validate and differentiate charges for each of NGM's roles. We believe that adding these costs as an separate line item on the IDB provides this opportunity.

We expect that the purchases NGM makes in the role of CPoSD should be included in the allowable revenue allocation so that they may be reviewed by Ofgem and excluded in the circumstances where NGM has not adequately fulfilled the role of CPoSD; this is the only way in which any lost costs might be recouped.

We believe that outturn costs vs SMP should be reviewed after the first operation of this solution and again six months afterwards to ensure this solution is operating as intended.

Ofgem have requested that the following questions are addressed:

Q5. What is the likely impact on consumers, industry and the market if the status quo for shipperless sites was maintained this winter (the status quo being National Grid NTS procuring the gas for shipperless sites through Residual Balancing)? Please justify if you think it is necessary to have an alternative solution in place.

The SMP buy/sell out price will continue to be perversely effected but we do not believe that this is to the extent that justifies an alternative solution.

Q6. What is the likely impact – both positive benefits and negative consequences/risk - of UNC0791 and the Contingency Gas Procurement Arrangements on consumers, industry and the market?

Shippers should receive a more systematically positive share of balancing neutrality, but there is obviously still a risk that if NGN purchase the gas forwards, and there is a price drop that shippers will pay a higher price but receive the lower.

The fact that suppliers are still buying at SMP should incentivise shipping arrangements being put in place as soon as possible but in the circumstances that the supplier itself is at risk of failure or does actually fail after NGM has purchased forward, we are uncertain if this might make it more costly for the market.

It is our understanding, that the initial payment to fund CPoSD trading will happen at M+1 and be reconciled at M+2. We are not then clear on the length of time until shippers receive payments back from the balancing neutrality fund; if this is at M+2/M+3 then shippers are funding the cash flow for 1/2 months.

Q7. What do you see as the costs and/or risks of National Grid NTS operating in markets outside of the OCM in this manner?

No comment

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.

The modification report states that NGN will not be required to publish volumes or prices at which it has purchased gas. We have suggested that this is provide as backing data so that shippers can validate charges as is their right.

We would also appreciate transparency on the portfolio size the CPoSD is managing and also on how long it expects suppliers to be without a shipper so that shippers can estimate and plan for these additional charges.

In addition to the kWh thresholds being reviewed, we would also like to see the procurement levels (i.e. not more than 80%, not less than 30%) be reviewed after the first utilisation of the solution as well as again at six months to ensure this is still fit for purpose.

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

NA.

