

Gas
Transmission

0813: Extension of 'Virtual Last Resort User' and 'Contingent Procurement of Supplier Demand' Triggers

Workgroup 1
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nationalgrid



Context

- Recent events have necessitated consideration of the consequences of a User (shipper) being subject to **sanctions** by the UK Government
- The Shipper would not be able to transact with counterparties, and counterparties (including Transporters) would be unable to transact with it
 - in the immediate/short term a User Default may not be triggered - application of sanctions, in isolation, are not a User Default event (TPD Section V4.3.1)
 - a User Default may subsequently be triggered, for example if the Shipper is unable to make payment or resolve a Code Credit Limit breach
 - in practice this may subsequently be triggered (for example, failure to pay an invoice)
- Imbalance Risk
 - until a new shipper is in place, the sanctioned shipper may not be delivering gas to the system to meet the demand of unrelated Supplier/s' customers
 - leading to increased Total System imbalance and residual balancing costs

User Termination Triggers

User Default Event (V4.3.1)

- (a) Non-payment of =>£10k due for payment
- (b) Value at Risk > Code Credit Limit
- (c) Unresolved material breach capable of remedy by the User
- (d) Unresolved material breach not capable of remedy by the User
- (e) Insolvency (defaulting User)
- (f) Shipper Licence ceases to be in force
- (g) Energy Balancing failure to pay / increase credit limit
- (h) DSC Default
- (i) Trader User Default

Termination Notice (V4.3.3)

Transporter may give notice (“Termination Notice”) to the Defaulting User

Imbalance Risk: Current Arrangements for a Terminated User

- Where a Shipper is subject to a **Termination Notice**, an associated Supplier(s) may act under a '**Deed of Undertaking**' until it makes arrangements with a new Shipper
- In the interim period the UNC provides **two** mechanisms which enable supplies of gas to be delivered to the system to balance the Supplier demand until a new Shipper is in place
 - **Virtual Last Resort User (VLRU)** – the Supplier uses other Shipper relationships to make trade nominations to the Terminated Shipper's account (TPD Section E10)
 - **Contingent Procurement of Supplier Demand (CPSD)** – National Grid Gas role (separate from Residual Balancing) that procures additional gas (TPD Section D6)
- Both mechanisms are only available where the relevant Shipper is subject to **Termination Notice**
 - VLRU mechanism introduced by Modification 0788 (1st Nov 2021)
 - CPSD mechanism introduced by Modification 0791 (2nd Mar 2022)

Imbalance Risk: Potential Gap in the Arrangements

- With the Shipper subject to sanctions unable to transact, it will not be delivering gas to the Total System to meet the demand of any associated Suppliers
 - VLRU and CPSD mechanisms would be unavailable as a Termination Notice has not been issued (no User Default has occurred)
 - in absence of change it will fall on National Grid (as the Residual Balancer) to maintain an operational balance
- Under existing rules VLRU and CPSD mechanisms are available where a shipper has been issued with a Termination Notice
 - Hence expected to be a short term risk until User Default occurs and Termination Notice issued
 - Nevertheless, potentially a material impact in the short term if a significant shipper portfolio is involved

Proposed Solution (1)

- Extension of the triggers enabling utilisation of the VLRU and CPSD mechanisms to where a Shipper is subject to government sanctions
 - Enables Suppliers and National Grid to efficiently procure gas supplies for impacted Supplier demand
- NB application of sanctions to a Shipper (in isolation) will not constitute a User Default event (i.e. a Termination Notice will not be issued) and it will remain party to the UNC
 - However, given the limitations imposed on it, and to facilitate continuity of *effective* shipping arrangements, all of the relevant Shipper's registrations of Supply Points in the Supply Point Register will be discontinued
 - VLRU and CPSD mechanisms predicated on shipping arrangements 'coming to an end'
 - Expectation that the relevant Suppliers will make arrangements with alternative Shippers who will register Supply Points via the standard Supply Point Administration Process
- De-registration process triggered by issue of a notice to the shipper by National Grid Gas
 - Opportunity for Ofgem to 'dis-approve' if it does not agree with National Grid interpretation of sanctions

Proposed Solution (2)

- SPA inflight transactions:
 - *“any Supply Meter Point Nominations and Supply Meter Point Confirmations (submitted by the User subject to the de-registration notice) that are ‘in flight’ shall lapse”;*
- SSMP Gas Allocations
 - *“at a Shared Supply Meter Point where a User subject to the de-registration notice is a Sharing Registered User, gas will be allocated among the remaining Sharing Registered Users and any allocation method amended so that each Sharing Registered User bears its share of what would have been allocated to the User subject to the de-registration notice”;*
- LDZ capacity
 - *“the User subject to the de-registration notice will no longer hold Supply Point Capacity at, or LDZ Capacity at, the relevant Supply Points”*
- NTS Capacity
 - *“where the relevant Supply Meter Point is a NTS Supply Meter Point, the NTS Exit Capacity (of the User subject to the de-registration notice) shall not confer any rights in respect of the offtake of gas.”*

Additional Considerations

- Proposal seeks to address the specific consequential imbalance risk,
- Are there any other impacted UNC matters which require consideration?
 - DSC

Governance Arrangements and Timeline

- Considered sufficiently material to require Authority Direction
- Workgroup Report due to be issued to the Modification Panel in January 2023