Representation - Draft Modification Report UNC 0806

Change to Curtailment Trade Price Compensation in Section Q

Responses invited by: 5pm on 19 August 2022

To: enquiries@gasgovernance.co.uk

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

Representative:	Jeff Chandler
Organisation:	SSE
Date of Representation:	5 August 2022
Support or oppose implementation?	Support
Relevant Objective:	**a)** Positive **f)** Positive
Relevant Charging Methodology Objective:	Not Applicable

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

SSE supports this modification. It was raised to address a shortcoming in the UNC that creates a disincentive for CCGT operators to buy gas in advance. By rectifying this and reducing the disincentive to buy gas the supply situation for GB will be better than it otherwise would be, if advance purchases were not made.

The invasion of Ukraine and the recent reduction by Gazprom of gas pipeline supplies to Europe means that in the event of a prolonged cold Winter the UK is likely to experience gas rationing in some form. The current emergency arrangements require the firm load shedding of supplies to large customers (CCGTs) to maintain safe gas system pressure and prioritise supplies to domestic customers. In tight electricity market, the prevailing level of wind generation will then determine the subsequent impact on electricity supply interruption.

The commercial arrangements for imbalance and cashout in the electricity market are more extreme than those in the gas market and could lead to costs of tens of £ Millions per day for a CCGT if interrupted at short notice. This makes voluntary load shedding of CCGTs unlikely in the current tight electricity market and makes a Gas Deficit Emergency (GDE) with the above firm load shedding more likely. In this situation the compensation price paid to a CCGT for its gas is only the 30 day average SAP prior to the GDE and does not reflect the commercial value of the gas on the day.

With this background, from a financial risk perspective it might make sense for CCGTs not to commit to generate in advance but to wait until close to physical delivery; assess the prevailing weather conditions and if gas is available commit to burn gas and generate electricity. Given that the UK is reliant on LNG flows for gas security this Winter, this risk avoidance strategy whilst best for CCGTs might not be best for the gas industry and GB as a whole and may not lend itself to attracting LNG supply in time.

Therefore, to attract LNG gas supply in-advance and help avoid a GDE the compensation payable in the event of firm load shedding needs to be improved as per UNC modification 806 to the SAP price on the day prior to the GDE. This will better incentivise the purchase of gas in advance because of the improved commercial conditions and therefore avoid a scramble to buy LNG at short notice.

Arguments have been made that this will modification will deter Demand Side Response (DSR). We do not believe that in its current form this will be the case as DSR has not been used to date, evidenced by the following examples:

1. No DSR was used on the "Beast from the East Day" in 2018.
2. GDNs have not had success in attracting DSR.
3. At the recent Gas DSR workgroup on 14 July 2022, anecdotal evidence was given that industrial Users were focused on using gas to continue production of their core business, inspite of apparent significant commercial advantage to sell gas back to the market.

SSE therefore believes it is better to implement this modification and facilitate the contracting of gas in advance which will help avoid a potential GDE. This will provide more certainty of security of supply than relying on the current DSR mechanism that has been shown to be ineffective.

It would however, be better to have both tools available and SSE would be supportive of an immediate replacement DSR mechanism for this Winter. It will likely need to be of a different structure to the existing mechanism and provide more certainty and notice of usage to users providing the service. Different funding and different commercial incentives to compensate for maintaining back up facilities need to be funded over a number of years until new gas supplies and renewable energy can replace Russian gas.

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

As soon as possible to allow LNG to be contracted ahead of the Winter.

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

None

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: Do industry parties have any additional comments relating to impacts on CCGT and/or other I&C customers in respect of this Modification Proposal?

Any increase in costs arising from implementation and use of this modification will be borne by Shippers who are short on the day. This maintains and strengthens the cashout signals for Shippers to balance. It is questionable if end customers will see any increase in costs because not all Shippers will be short and a competitive market should ensure that only universal costs are passed through to customers.

The modification proposes the same compensation payment to all participants of the UNC to avoid discrimination.

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.*

None

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

Already provided to workgroup.