

Gas  
Transmission

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

(Pre Modification)

Transmission Workgroup  
7<sup>th</sup> July 2022

nationalgrid



# Background

- 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 (1<sup>st</sup> Nov 2021)
  - CPSD mechanism introduced by Modification 0791 (2<sup>nd</sup> Mar 2022)

# Potential Gap in the Arrangements

- Recent events have necessitated consideration of the consequences of a User (shipper) being subject to **sanctions** by the UK Government
  - This could limit or prevent that User's ability to participate in the UNC regime
  - Assumption the Shipper would not be able to transact with counterparties, and counterparties (including Transporters) would be unable to transact with it
- Application of sanctions, in isolation, are not sufficient to constitute a **User Default** event (TPD Section V4.3.1)
  - In practice this may subsequently be triggered (for example, failure to pay an invoice)
- With the Shipper unable to transact, supplies will not be delivered to the Total System to meet the demand of associated Suppliers
  - VLRU and CPSD mechanisms would be unavailable as a Termination Notice has not been issued (no User Default has occurred)

# Proposed Solution

- 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, the relevant Shipper's registrations of Supply Points in the Supply Point Register will be discontinued
  - 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 Governance

- Proposal to be raised in time for consideration by the UNC Modification Panel on 21<sup>st</sup> July 2022
- Authority Direction – based on the materiality of the issue
  - Potential impact on sanctioned Shipper
  - Potential impact on system (im)balance
- Non-urgent (standard timelines/process)
  - Referral to Workgroup for development (proposed for six months)