









UNC Final Modification Report	At what stage is this document in the process?
<h1 data-bbox="134 322 655 412">UNC 0854:</h1> <h2 data-bbox="129 450 1182 663">Revision of Virtual Last Resort User and Contingent Procurement of Supplier Demand Event Triggers</h2>	<div data-bbox="1203 309 1474 633"> <div data-bbox="1203 309 1474 383">01 Modification</div> <div data-bbox="1203 394 1474 468">02 Workgroup Report</div> <div data-bbox="1203 479 1474 553">03 Draft Modification Report</div> <div data-bbox="1203 564 1474 638">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>To extend the availability of 'Virtual Last Resort User' and 'Contingent Procurement of Supplier Demand' provisions (currently only available as a consequence of User Termination) to instances where (in exceptional circumstances) National Gas Transmission (NGT) issues a User Premises Termination Notice (as a consequence of the application of sanctions on that User by the UK Government). The availability of these two mechanisms in such an event will facilitate the maintenance, ongoing integrity and continued effective operation of the commercial Energy Balancing and Transportation arrangements in the immediate/short term until an alternative User Registration is in place for the relevant Supply Meter Points.</p>	
<p>Next Steps:</p> <p>The Panel recommends implementation.</p>	
<p>Impacted Parties:</p> <p>High: Suppliers, Shippers, NGT, Distribution Network Operators, independent Gas Transporters, Consumers</p>	
<p>Impacted Codes:</p> <p>UNC</p>	

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Modification timetable:		
Pre-Modification Discussed	03 August 2023	 Any questions?
Date Modification Raised	04 August 2023	Contact: Joint Office of Gas Transporters
New Modification to be considered by Panel	17 August 2023	 enquiries@gasgovernance.co.uk
First Workgroup Meeting	07 September 2023	 0121 288 2107
Workgroup Report to be presented to Panel	18 January 2024	Proposer: Phil Lucas National Gas Transmission
Modification Proposal issued for consultation	18 January 2024	 phil.lucas@nationalgas.com
Consultation Close-out for representations	22 February 2024	 07825 592518
Final Modification Report available for Panel	26 February 2024	Transporter: Phil Lucas National Gas Transmission
Modification Panel recommendation	21 March 2024	 phil.lucas@nationalgas.com
Final Modification Report issued to Ofgem	22 March 2024	 07825 592518
		Systems Provider: Xoserve
		 UKLink@xoserve.com

1 Summary

What

If, as a consequence of User (Shipper) Termination, a Supplier in respect of all or some of the Terminated Supply Points is operating under the terms of a binding Undertaking (a 'Supplier Undertaking') it has given to Transporters (i.e. there is no Registered User in place for the relevant Supply Meter Points), the UNC currently provides for:

- a **Virtual Last Resort User ('VLRU')**
enabling the relevant Supplier to utilise other existing User relationships to source additional supplies of gas and make trade nominations to the Terminated User account to balance that portfolio and mitigate increased costs, until a new Registered User is appointed.
- **Contingent Procurement of Supplier Demand ('CPSD')**
requiring that, separate to its role as residual balancer, NGT procures gas to meet the forecast demand of Terminated Supply Meter Points that are temporarily without a Registered User. In this ringfenced role, gas is able to be procured more efficiently compared to purchases actioned via the residual balancer role.

Why

The VLRU and CPSD mechanisms are in place to mitigate the Total System imbalance risk presented by a Supplier operating under the terms of the Supplier Undertaking it gives to Transporters (as it will not be delivering gas to meet the demand of its customers). The availability/application of both the VLRU and CPSD mechanisms are contingent on the occurrence of a User Termination on the basis that the Supplier Undertaking is predicated upon arrangements between the Transporter and the relevant User at the relevant premises to 'coming to an end' (as set out in Supplier Licence Condition 18(1)).

As the application of sanctions on a User by the UK government does not constitute a User Default event under the UNC, a Transporter is not able to issue a Termination Notice as a direct consequence. Hence a mechanism is required to ensure 'activation' of the Supplier Undertaking (i.e. for arrangements between the Transporter and the relevant User at the relevant premises to 'come to an end'). Further, in order to mitigate the consequential imbalance risk, the triggers for availability of the VLRU and CPSD mechanisms need to be extended to where the aforementioned arrangements have 'come to an end' in these circumstances.

How

It is proposed that NGT may issue a notice (a '**User Premises Termination Notice**' (UPTN)) to a User due to application of sanctions (on that User) by the UK government. This will have the effect of discontinuing the relevant User's Registration for any Supply Meter Points for which it is the prevailing Registered User whilst it remains a 'live' (i.e. not terminated) User. The UPTN will set out the reason(s) for the issue of the UPTN and the date from which the registration of the relevant Supply Meter Points is to be discontinued.

It is proposed that in addition to the existing User Termination trigger for the application of VLRU and CPSD terms (as set out in TPD Section E10.1.1(a) and TPD Section D6.12(a) respectively), the availability of these two mechanisms is also triggered by NGT issuing a UPTN to a User.

This Modification will introduce the concept a UPTN. For the avoidance of doubt, the User which is subject to the UPTN will remain liable for the Energy Balancing and Transportation Charges accrued up to the point that its registrations of the relevant Supply Meter Points are discontinued.

It is proposed from the date from which the registration of the relevant Supply Points is discontinued, the relevant

Supply Points will be subject to the same provisions as Terminated Supply Meter Points and the remaining provisions of TPD Section E10.1.1 and TPD Section D6.1.2 shall apply accordingly.

2 Governance

Justification for Authority Direction

There is currently a risk of a User, which may ship gas for one or more related or unrelated Suppliers, being subject to a UPTN to take immediate effect, or with a relatively short period of notice. If these Suppliers 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 Meter Points, thereby generating a national supply / demand imbalance, assuming all other Users were balanced.

Measures to mitigate the adverse implications of a material supply/demand imbalance as a consequence of User Termination were implemented by Modifications 0788¹ and 0791². However, these mechanisms are not currently available where a User is subject to a UPTN as a consequence of the application of sanctions by the UK government.

We believe that if this Modification were to extend the availability of these mechanisms to instances where NGT issues a UPTN is not implemented, there is a risk of a significant commercial impact on UNC parties, on the operation of the gas system and gas markets and therefore Authority Direction is appropriate.

Requested Next Steps

This Modification should be considered a material change and not subject to Self-Governance.

Workgroup's Assessment

Workgroup Participants agreed that this should be subject to Authority Direction.

3 Why Change?

Existing UNC Terms

As a consequence of User Termination, a Supplier may be required to operate (in respect of all or some of the Terminated Supply Meter Points) under the terms of a Supplier Undertaking it has given to Transporters³ given that arrangements between the Transporter and the relevant User to convey gas to premises supplied by that Supplier have 'come to an end'⁴ (i.e. there is no Registered User in place for the relevant Supply Meter Points). Operation of this Supplier Undertaking ensures appropriate apportionment of liability for transportation and energy balancing charges (for offtake from the Total System) until a new User is in place. Whilst the Supplier Undertaking is in place, it is assumed to have delivered no (i.e. zero) gas to the system to balance the demand of the consumers it supplies. This reflects the fact 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.

In such an event, in order to mitigate the consequential risk of a material system imbalance (shortfall) the UNC

¹ Minimising the market impacts of 'Supplier Undertaking' operation - Virtual Last Resort User

² Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking - Contingent Procurement of Supplier Demand

³ In accordance with Condition 18.2 of the Supplier Licence

⁴ As per Condition 18.1(a) of the Supplier Licence

provides for:

- a **VLRU** as per TPD Section E10

This enables the relevant Supplier to utilise other existing User relationships it may have to source additional supplies of gas and make trade nominations to the Terminated User account to balance that portfolio and mitigate increased costs, until a new Registered User is appointed.

- **CPSD** as per TPD Section D6

This requires that, separate to its role as residual balancer, NGT procures gas to meet the forecast demand of Terminated Supply Meter Points that are temporarily without a Registered User.

User Premises Termination Notice (UPTN)

Application of sanctions by the UK Government to a User which inhibits its ability to operate in the GB market does not, of itself, constitute a User Default and therefore a Transporter is not able to issue a Termination Notice as a direct consequence of the application of such sanctions. Notwithstanding this fact, a sanctioned User represents an additional scenario in which a Supplier may be required to operate in accordance with its Supplier Undertaking given the limitations imposed on that sanctioned User, more specifically its inability to operate in the GB market.

The material system imbalance risk that may be presented by a Supplier operating in accordance with the Supplier Undertaking (as set out above) prompted the development of the aforementioned mechanisms in Modifications 0788 and 0791. In order to trigger the application of the Supplier Undertaking, arrangements between the Transporter and the User at the relevant premises must 'come to an end'. In recognition of this, the availability/application of both the VLRU and CPSD mechanisms are currently contingent on the occurrence of a User Termination in the first instance.

Accordingly, to enable mitigation of the imbalance risk presented by User subject to sanctions, a mechanism is required to ensure 'activation' of the Supplier Undertaking which itself requires arrangements between the Transporter and the relevant User at the relevant premises to 'come to an end'. The proposed removal of the relevant User's Supply Point registrations achieves this and ensures activation of the Supplier Undertaking.

The proposed approach would permit NGT to issue a notice to a User (a UPTN) as a consequence of the application of sanctions by the UK government. This would have the effect of discontinuing the relevant User's Registration for any Supply Points for which it is the prevailing Registered User. The UPTN would be issued whilst it remains a 'live' (i.e. not terminated) User.

The UPTN will set out the reason(s) for issuing of this notice and the date from which the User's registration of the relevant Supply Points (both CSS Supply Points, and Non-CSS Supply Points) are to be discontinued. This User will remain liable for the Energy Balancing and Transportation Charges accrued up to the point that the relevant User's registration of the relevant Supply Points is discontinued.

In order to mitigate the impact of the relevant User on the provision of services by the CDSP under the Data Services Contract (DSC), the solution sets out that the CDSP will discontinue provision of such services (to that User) whilst it is subject to a UPTN.

Following the issue of a UPTN, Transporters will issue notice⁵ to any relevant Supplier that Shipper/Transporter arrangements for the conveyance of gas to the relevant premises have come to an end and therefore, until such time as a new Shipper becomes the Registered User of the relevant Supply Points, the Supplier will be operating

⁵ In accordance with Condition 18.1(c) of the Supplier Licence (see <https://www.ofgem.gov.uk/industry-licensing/licences-and-licence-conditions>)

in accordance with the binding Undertaking it has given to Transporters.

In line with entitlements afforded to the relevant Transporter when issuing a Termination Notice (as set out in TPD Section V4.3.8), where NGT issues a UPTN to a User, it will be entitled to inform such persons as it thinks fit (including another Transporter) that it has done so; and it shall inform the CDSP that it has done so.

Consequences of a UPTN and Rationale for Proposal

The existence of an additional scenario in which a Supplier may be required to operate in accordance with its Supplier Undertaking and in which the VLRU and CPSD mechanisms are not available (due to the absence of a Termination Notice) presents the material system imbalance risk that prompted the development of the aforementioned mechanisms in Modifications 0788 and 0791.

On this basis, *extension* of the availability of these mechanisms, i.e. to include instances where a UPTN has been issued, is a logical means of mitigating this imbalance risk.

Modification Proposal 0813

NGT previously sought to address the system imbalance risk as described above by raising Modification Proposal 0813 ('0813') in July 2022. The solution contained within 0813 mirrored that set out in this current Proposal, save for the inclusion (in 0813) of an opportunity for the Authority to 'Disapprove' the issue of a UPTN.

This 'Disapproval' mechanism has been removed from the solution in this Proposal as it was explicitly identified as the reason for Ofgem's rejection of 0813 (issued in July 2023). In its decision letter it stated: "*our designated regulatory functions do not cover the arrangement in the proposal for the Authority to interpret and come to a view on whether a shipper is or will become sanctioned under the Sanctions Act and, on the basis of this interpretation, decide whether to disapprove NGT's issuing of a UPTN. Because of this, we consider that this role, as described in the proposal, is outside the vires of the Authority.*"

Although as a consequence of the above Ofgem did not assess the remainder of the solution proposed in 0813 against the UNC objectives, we continue to believe the risk identified in this Proposal remains, and on this basis that the solution set out in this Proposal would be appropriate in order to mitigate this risk.

Consequences of non-implementation

In absence of the measures set out in this Proposal, any imbalance attributable to the issue of the UPTN (as described in this Proposal) would be included in the overall system imbalance NGT evaluates in its role as Residual Balancer. As identified in Modification 0791, NGT has limited access to markets in this Residual Balancing role. Hence this Modification would enable:

- gas to be provided by other shipper Users via the VLRU role; and/or
- gas to be procured more efficiently via a wider range of tools and timescales by NGT in its residual balancing role

This would enable the minimisation of such imbalance volumes and facilitate the efficient procurement of any gas required to maintain Operational Balance⁶.

Potential Materiality

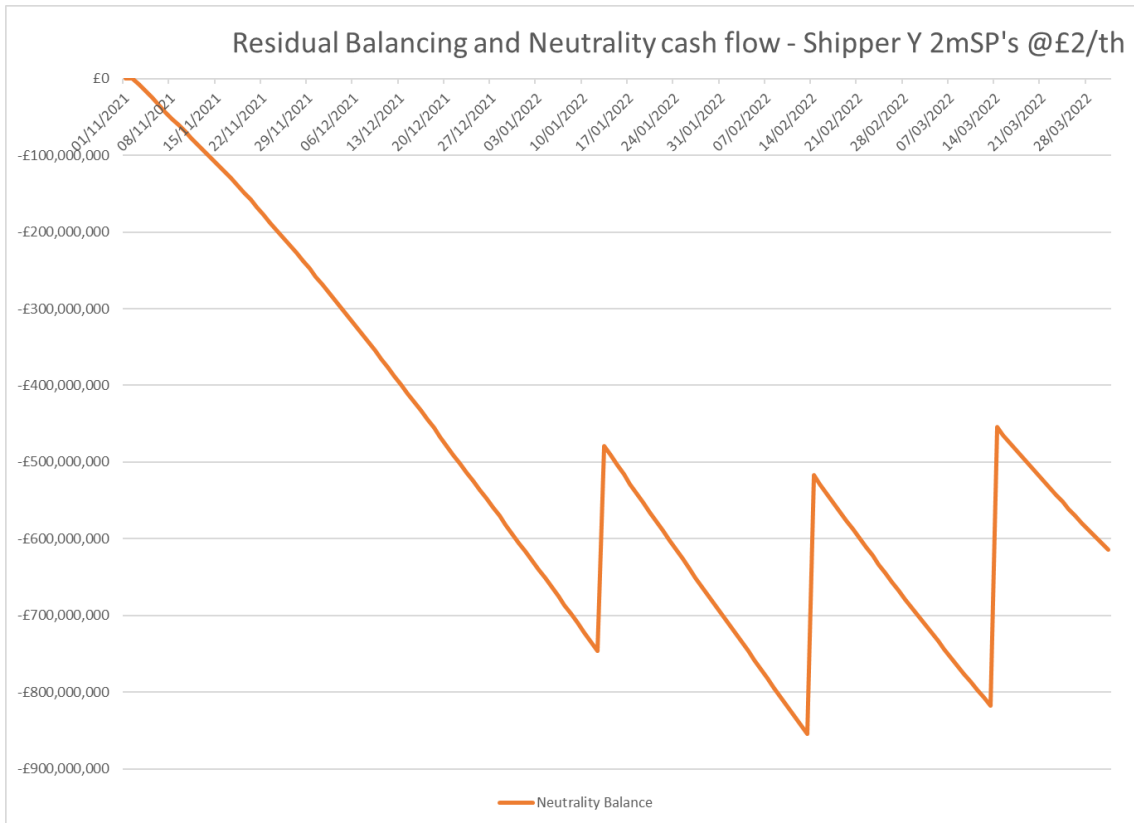
NGT (formerly National Grid NTS) previously provided analysis to demonstrate materiality in the context of the issues identified in Modification Proposal 0791 using an illustrative Shipper portfolio size. The analysis previously provided for Modification Proposal 0791 applies equally to this Proposal in terms of illustrating potential

⁶ See UNC TPD Section D1.1.1

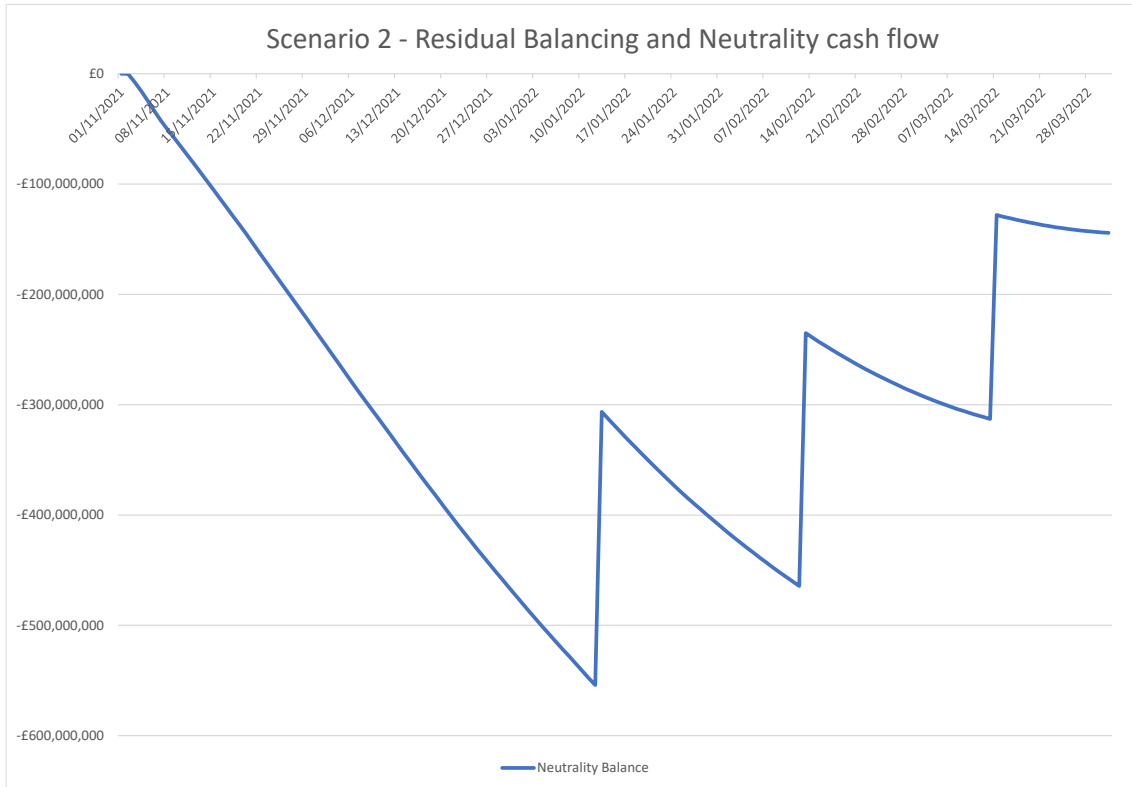
materiality. This is because this Modification proposes the extension of the availability of the mechanism introduced by this Modification to an event where a User is subject to a UPTN. Therefore, that same analysis is replicated below:

“National Grid NTS has modelled 4 scenarios to illustrate the potential cashflow exposure to the balancing neutrality account of the residual balancer procuring gas for a portfolio of 2 million supply points offtaking gas on a seasonal normal demand profile, assuming a gas price of £2.00 per therm. This portfolio size was requested at the National Grid NTS organised workshops and builds on the analysis presented in those meetings.

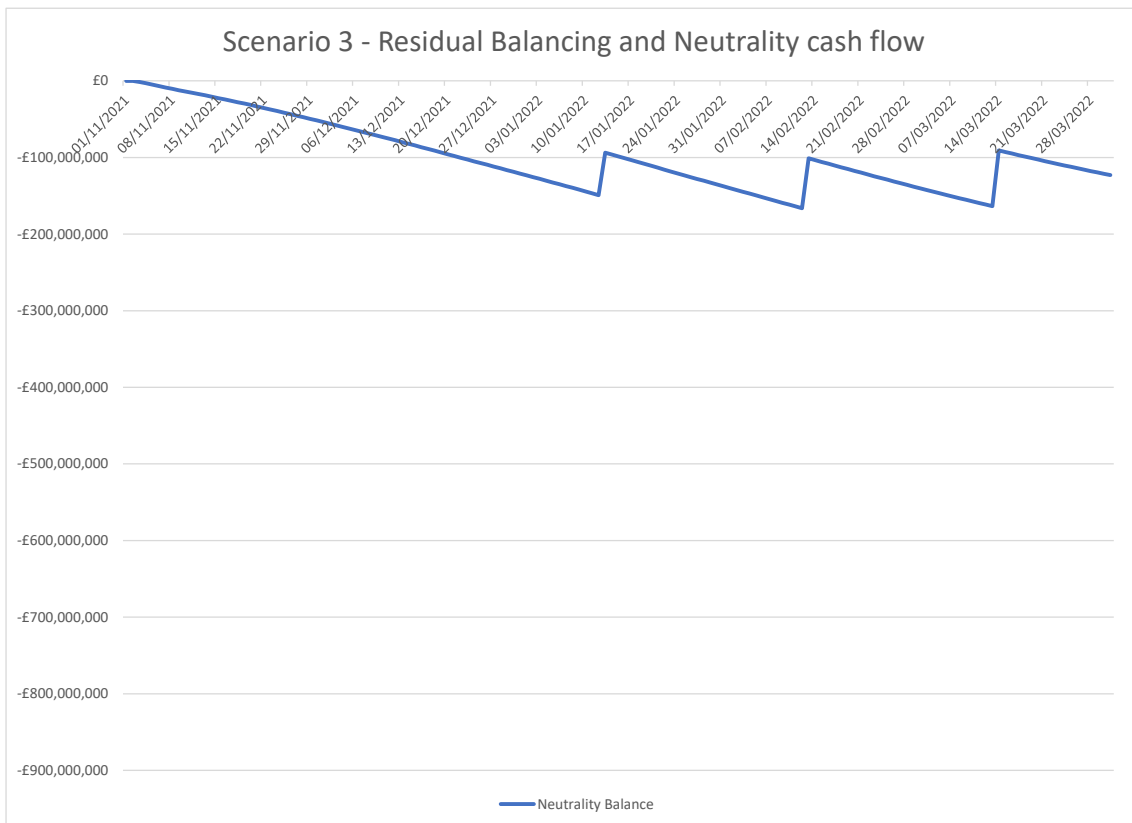
- 1) Assuming no migration of supply points from the failed shipper, peak neutrality exposure of ~£854m



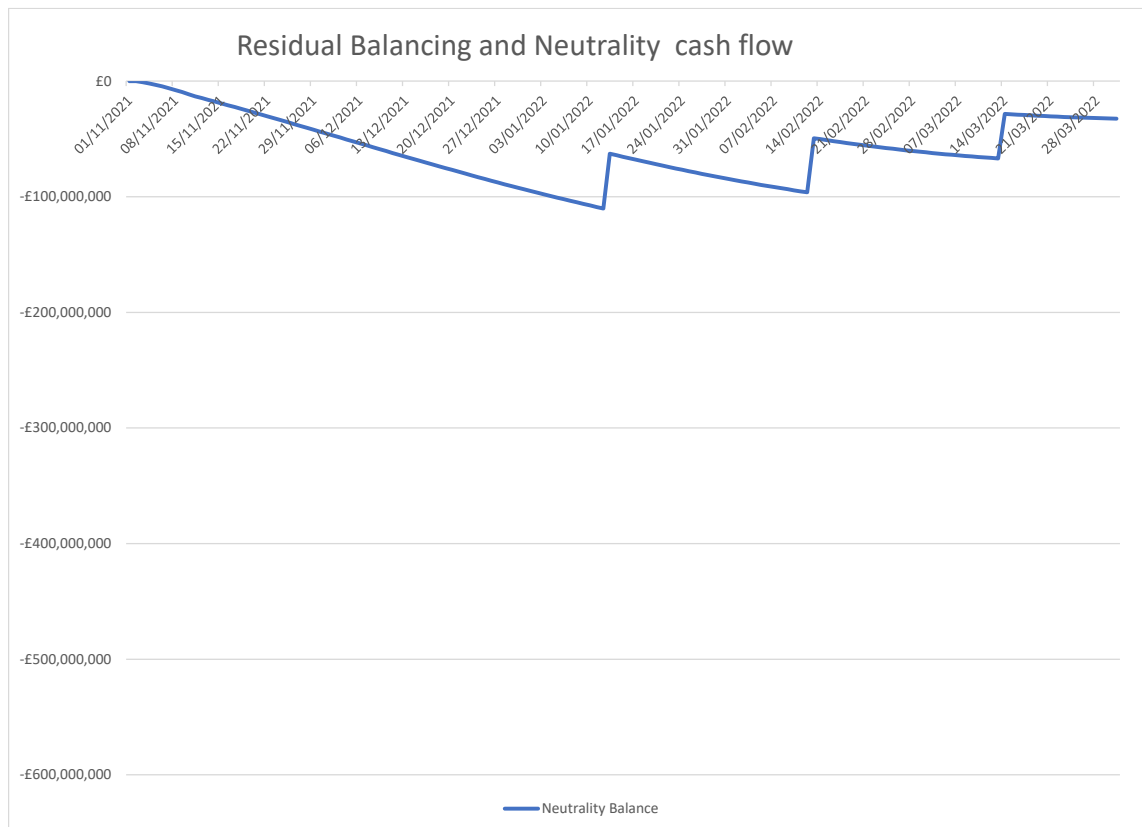
2) Assuming a steady migration of supply points to other shippers (peak neutrality exposure of ~£554m)



3) Assumes no migration of supply points but with 80% of the demand fulfilled by trades pursuant to Modification 0788, peak neutrality exposure of £166m



- 4) Assumes a steady migration of supply points to other shippers and with 80% of the demand fulfilled by trades pursuant to Modification 0788, peak neutrality exposure of £111m.



Effect of this Proposal

If the accelerated cost recovery timescale detailed in this Proposal were implemented, assuming that 90% of the volume requirement were secured via exchanges and 10% via ‘over the counter’ trades, National Grid NTS has calculated that the above maximum exposure would be reduced to the following:

Scenario 1: £557m

Scenario 2: £367m

Scenario 3: £131m

Scenario 4: £73m.

Updated Effect of this Proposal

Since the National Grid NTS workshops, we have become aware of the ‘Special Administration Regime’⁷ which could be applied in respect of a portfolio of 2 million supply points rather than the ‘Supplier of Last Resort’ process. National Grid NTS has therefore re-run its analysis, assuming a portfolio of 800,000 Supply Points and an updated gas price of £2.25/therm, with the accelerated cost recovery proposals and with 90% of the volume requirement were secured via exchanges and 10% via ‘over the counter’ trades. The maximum exposure with these updated assumptions would be reduced further, as follows:

Scenario 1: £251m

Scenario 2: £110m

⁷ <https://www.gov.uk/government/publications/bulb-energy-limited-consent-to-apply-for-a-special-administration-regime>

Scenario 3: £57m

Scenario 4: £22m.

If an 800,000 Supply Point portfolio were left to the residual balancer to procure without any mitigations (as in the original scenario 1) at a gas price of £2.25/therm then the peak neutrality exposure has been calculated to be £374m.

National Grid NTS would also expect that System Marginal Buy prices would be lower than would otherwise be the case if this Modification were not implemented and the residual balancer was required to procure the required volumes”

4 Code Specific Matters

Reference Documents

[UNC TPD D](#) – see D6 ‘Contingent Procurement of Supplier Demand’

[UNC Modification 0791](#)

[UNC TPD E](#) – see E10 ‘Virtual Last Resort User’

[UNC Modification 0788](#)

[UNC TPD G](#) – see G4.2 ‘Termination / Supplier of Last Resort’

[UNC TPD V](#) – see V4 ‘Discontinuing Users and Termination’

[Supplier Licence - Condition 18](#)

[UNC Modification Proposal 0813](#)

Knowledge/Skills

Awareness of areas referred to in above Reference Documents would be beneficial.

5 Solution

It is proposed that NGT may issue a UPTN to a User as a consequence of the application of sanctions by the UK government.

Where the UPTN is to be issued, this will be notified to the relevant User. Where this notice has been given, NGT will be entitled to inform such persons as it thinks fit (including another Transporter) that it has done so; and it shall inform the CDSP that it has done so.

It is proposed that in addition to the existing User Termination triggers for the application of VLRU and CPSP terms (as set out in TPD Section E10.1.1(a) and TPD Section D6.1.2(a) respectively), the availability of these two mechanisms is also triggered by the issue of a UPTN to the relevant User.

It is proposed that from the date from which the registrations of the relevant Supply Meter Points are discontinued (as set out in the UPTN), the relevant Supply Meter Points will be subject to the same provisions as Terminated Supply Meter Points and the remaining provisions of TPD Section E10.1.1 and TPD Section D6.1.2 shall apply accordingly.

In respect of the relevant Supply Meter Points, it is proposed that:

- all the relevant Supply Meter Points (i.e. all those where the User subject to the UPTN is the Registered User) will be Terminated Supply Meter Points as per TPD Section G4.8.2

- in respect of CSS Supply Points, the User subject to the UPTN will cease to be the Registered User of any CSS Supply Points, consistent with TPD Section G5.1.3(c). Further, the CDSP will:
 - modify the Shipper-Supplier Association Data to remove the User subject to the UPTN, consistent with TPD Section G5.7.8/5.8.2(b); and
 - update the Shipper-Transporter Association Data to reflect a Registration Block Notice in relation to the User subject to the UPTN, consistent with TPD Section G5.8.3(a).
- at a Shared Supply Meter Point where a User subject to the UPTN is a Sharing Registered User, gas will be allocated among the remaining Sharing Registered Users and where necessary 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 UPTN;
- the User subject to the UPTN will no longer hold Supply Point Capacity at, or LDZ Capacity at, the relevant Supply Points; and
- where the relevant Supply Meter Point is a NTS Supply Meter Point, the NTS Exit Capacity (of the User subject to the UPTN) shall confer any rights in respect of the offtake of gas.

It is proposed that with effect from the date the UPTN takes effect (and for the duration that this notice is in effect), the CDSP will cease the provision of services provided to that User under the Data Services Contract.

6 Impacts & Other Considerations

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

None.

Consumer Impacts

If this Modification is not implemented, the VLRU and CPSD mechanisms will remain unavailable in the identified scenario of NGT issuing a UPTN. As a result, the costs of any consequential residual balancing actions will be socialised across all Shipper Users.

However, the proposed approach in this Modification would avoid additional gas procurement activity being undertaken by NGT in its residual balancing role for the impacted Supply Meter Points, with such gas being provided by other shipper Users and/or procured via a wider range of tools and timescales. This is expected to result in lower system prices than would otherwise be the case, ultimately resulting in lower costs to be passed through to consumers.

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

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None

<p>Lower bills than would otherwise be the case</p> <p>This Modification is expected to enable NGT to secure additional supplies of gas at a lower unit cost than would otherwise be the case if it were taking such action on the day in its residual balancer role via the OCM. This is expected to result in SAP and marginal prices on the day being lower than would otherwise be the case. Thus, such a reduction should be passed through to consumers and have lower cost impacts on the market.</p>	Positive
<p>Reduced environmental damage</p>	None
<p>Improved quality of service</p>	None
<p>Benefits for society as a whole</p> <p>By seeking to mitigate upward pressure on system prices when a Supplier is operating under a deed of undertaking, this Proposal is expected to lead to lower wholesale prices than would otherwise be the case and to reduce the risk of further financial challenges for market participants and thereby minimise disruption for consumers.</p>	Positive

A Workgroup Participant reiterated that the mechanism would extend the availability of facilities under VLRU CPSD to a scenario whereby a User is subject to sanctions (but in which the User would not be Terminated under the usual Code arrangements). In such cases the User remains Party to the Code.

Cross-Code Impacts

None. Registration of CSEP Supply Meter Points is managed by the CDSP under the terms of the UNC.

Questions referred to the Workgroup by the Modification Panel are included in this section.

Panel Questions

1. Does the Modification directly impact IGT UNC

- A. The iGT UNC Points to the UNC. The iGT UNC administrator is aware of this proposal and is considering their approach and it is recorded on their cross-code issues tracker.

2. Would the Modification impact REC and the registration process

- A. The CDSP REC Regulatory Team provided the following update for the January Workgroup meeting and Workgroup Participants agreed that it should be repeated within this report.

The REC Schedule 19 deals with necessary actions following a party exit (including parties who are not REC Parties but may for example be REC Service Users). It includes responsibilities by the appointed Supplier in the event of Supplier of Last Resort event – i.e. responsible Registration activities necessary by the SoLR. It does not specify the circumstances in which any such Market Exit event was initiated – i.e. whether a Shipper exit is as a result of Termination or, subject to UNC Mod 0854 approval, a User Premises Termination Notice. As a consequence, there is no explicit need to update this schedule to include the UPTN.

REC Schedule 19 does require that a Shipper registration is undertaken in accordance with the UNC, but there is no explicit timescale in UNC for how long a Supplier Undertaking can be in effect for, nor is there a timescale in the REC. In short this means that there is no Code obligation for the Supplier to

trigger a new Registration according to a specific timescale.

The need of the Supplier Undertaking are set out in Standard Licence Condition 18 of the Gas Supplier Licence, as this deals with Supplier responsibilities to Transporters in the event of Shipper failure. A timescale of 25 Working Days is defined within the Supplier Licence.

The Supplier Undertaking is required as a condition of the Supplier entry process under Market Participant Registration process (see UNC GT-D). The Supplier Undertaking is specified in the Market Participant Verification Document in the UK Link Manual.

Conclusion

The above is the CDSP REC Regulatory Team view. Given the REC focus being specific to Registration, and UNC Modification 0854 being concerned with Gas Nomination and Allocation (and effectively Settlement) therefore the CDSP REC Regulatory Team do not consider that a REC Change is required. The solution proposed for 0854 uses the existing Shipper Termination processes and the reason for Registration being undertaken in such circumstances are not defined in the REC.

EU Code Impacts

None.

Central Systems Impacts

No systems changes are required to implement this Modification; however, new processes would be required within Transporters and the CDSP. These would be to issue the relevant notices to Suppliers in response to NGT issue of a UPTN and utilise the processes (relating to the VLRU and CPSD mechanisms) currently applied in equivalent circumstances as a consequence of the issue of a Termination Notice.

A Workgroup Participant noted that this Proposal would be achieved by amendment of an existing BAU process.

Rough Order of Magnitude (ROM) Assessment

Not requested as no system change proposed.

Performance Assurance Considerations

No concerns raised by Workgroup.

Initial Representations

None Received.

Workgroup Impact Assessment

A Workgroup Participant expressed concern that the decision and consequential action by NGT may have a devastating effect on a User and that in hindsight such action might be challenged and found to be incorrect. The Workgroup Participant asked the Proposer to confirm if there will be an indemnity of actions as a consequence of NGT making an incorrect decision on issuing a Cessation Notice.

The proposer provided the following written response for the December Workgroup meeting:

TPD Section G4.8.9 of the draft text requires NGT to issue the notice if it concludes the relevant criteria have been met. When making this decision, as per TPD Section V11.2 NGT must:

"...in relation to exercising its discretions and performing obligations under the Code ... at all times... act reasonably and in good faith in its dealings with [shippers]; ...".

Hence NGT is required to make this decision in an objectively reasonable manner (given the facts and the circumstances) and this decision should be exercised consistently with its purpose, here to issue the notice where the relevant facts apply, i.e. the shipper is a sanctioned entity and the related gas supply is therefore prohibited.

If in taking this decision NGT:

- has asked the right questions;
- considered all relevant matters;
- dis-regarded irrelevant matters; and
- reached a decision which a reasonable person could have objectively reached

we believe we will have complied with TPD Section V11.2.

Even if this were not the case, and NGT’s decision is deemed to be unreasonable and therefore a breach of TPD Section V11.2, then TPD V8.1.1(a) limits the extent of liability for a breach of UNC to physical damage to property and limits such liability to the amounts set out in TPD Section V8.1.3.

Liability for the following is explicitly excluded as per TPD Section V8.1.1(b):

- any loss of profit, loss of revenue, loss of use, loss of contract, loss of goodwill, or increased cost of working; or
- any indirect or consequential loss; or
- (except in respect of the aforementioned damage to property, and liability for death or personal injury resulting from negligence) loss resulting from the liability of any other Party to any other person howsoever and whensoever arising.

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.	Positive
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), (c) and (d), as follows:

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

The proposed changes in this Modification are expected to introduce a more efficient and economic means of securing delivery of additional supplies of gas to the Total System to meet the demand from the consumers in the event there are Supply Meter Points without a Registered User as a result of the issue of a UPTN and a Supplier that is acting in accordance with a deed of undertaking than would otherwise be the case under the status quo (i.e. via the residual balancing function). Minimising the risk of system prices not being reflective of supply/demand fundamentals is expected to result in more efficient system usage and hence operation.

c) Efficient discharge of licensee's obligations

The proposed changes in this Modification to enable other shipper Users to deliver additional gas to the system and/or enable NGT to purchase NBP gas for this purpose through additional means to the OCM with a forward trading capability will better facilitate NGT's obligation to perform its functions in an efficient, economic and co-ordinated manner.

d) Securing of effective competition between relevant Shippers;

By enabling other shipper Users to deliver additional gas to the system and/or enabling NGT to transact for additional volumes to meet the demand of Supply Points (that are subject to a supplier's deed of undertaking) in a ringfenced function, the proposed changes are expected to reduce the cost of such gas procurement compared with the status quo and result in lower system prices than would otherwise be the case, thereby mitigating the financial challenges being faced by market participants.

Workgroup Assessment of Relevant Objectives

Workgroup Participants agreed that that the arguments made here in support of the Relevant Objectives are the same as were put forward by the Proposer in respect of UNC0813 and that the Workgroup have no different views in respect of this proposal and so the earlier views should be repeated in this report. The Workgroup views in respect of UNC0813 are included here for completeness;

A Workgroup Participant noted reservations with the process for the Authority to Disapprove the taking of the UTPN action and that this may therefore not support achievement of any of the Relevant Objectives.

There were no other concerns raised by Workgroup Participants in respect of the Relevant Objectives.

A Workgroup Participant noted that the removal of the reference to Ofgem under UNC0813 has taken away a protection that might have existed had that Modification been implemented. The Workgroup Participant noted that the change for this Proposal was made on the basis of the Ofgem decision on UNC0813.

8 Implementation

Implementation is sought as soon as practicable given the current risk that a UPTN will need to be issued by NGT which requires timebound and timely actions as consequence.

As set out above, actions required for implementation are limited to those associated with the processing of the UPTN and application in such an event of processes which have already been implemented as a consequence of the implementation of Modifications 0788 and 0791.

9 Legal Text

Legal Text has been provided by National Gas Transmission and is published alongside this report. Workgroup Participants noted that the text is very similar to that considered under Modification 0813 with the deletion of clauses that required Ofgem to approve any NGT decision to enact the facility created under the modification. During Workgroup discussions the Ofgem representative confirmed that the new proposal incorporates changes that align with the decision letter issued in respect of UNC0813.

Workgroup Assessment

The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

Text Commentary

Published [Explanatory table 0854](#)

Text

Published [Final text 0854](#)

10 Consultation

Representations were invited from interested parties on 18 January 2024. All representations are encompassed within the Appended Representations section, including any initial representations.

The following table provides a high-level summary of the representations. Implementation was unanimously supported in the 2 representations received.

Representations were received from the following parties:		
Organisation	Response	Relevant Objectives
National Gas Transmission	Support	a) Positive c) Positive d) Positive
Northern Gas Networks	Support	a) Positive c) Positive d) Positive

Please note that late submitted representations may not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0854 would extend the availability of 'Virtual Last Resort User' and 'Contingent Procurement of Supplier Demand' provisions (currently only available as a consequence of User Termination) to instances where (in exceptional circumstances) National Gas Transmission (NGT) issues a User

Premises Termination Notice (as a consequence of the application of sanctions on that User by the UK Government). The availability of these two mechanisms in such an event will facilitate the maintenance, ongoing integrity and continued effective operation of the commercial Energy Balancing and Transportation arrangements in the immediate/short term until an alternative User Registration is in place for the relevant Supply Meter Points.

Panel members noted that no initial representations had been submitted.

Panel Members reviewed the two Panel Questions raised and agreed these had been assessed by the Workgroup. Panel Members noted that cross-code impacts had been considered and that the report adequately documented responses from the Parties concerned.

Panel Members considered the representations made noting that implementation was unanimously supported in the 2 representations received.

Panel Members agreed with respondents and the Proposer that this Modification would introduce a proportionate and appropriately targeted step to mitigate the increased imbalance risk this scenario presents to NGT and other market participants and allow the continuation of balancing and transportation until an alternative User Registration is in place for the impacted MPRNs.

Panel Members noted that action taken by National Gas Transmission under this Modification may be challenged as incorrect after the event and after commercial harm has been caused to the affected Shipper. Panel Members noted that NGT had set out for the Workgroup the legal position under the UNC. Panel Members noted that the Authority had set out its position in the rejection letter for Modification 0813.

CACoP Principle 15 – Consumer Impacts and Net Zero discussion

Panel Members noted the Consumer Benefits table on page 12 showed positive impacts for:

- Lower bills than would otherwise be the case

This Modification is expected to enable NGT to secure additional supplies of gas at a lower unit cost than would otherwise be the case if it were taking such action on the day in its residual balancer role via the OCM. This is expected to result in SAP and marginal prices on the day being lower than would otherwise be the case. Thus, such a reduction should be passed through to consumers and have lower cost impacts on the market. Reducing credit risk could also prevent increased cost impacts on the market.

- Benefits for society as a whole

By seeking to mitigate upward pressure on system prices when a Supplier is operating under a deed of undertaking, this Proposal is expected to lead to lower wholesale prices than would otherwise be the case and to reduce the risk of further financial challenges for market participants and thereby minimise disruption for consumers.

Some Panel Members noted that addressing the consequences of sanctions (taking action to support sanctions) put in place by the Government is in the national interest.

Some Panel Members agreed with the two positive impact areas show in the table on page 12.

Some Panel Members believed that reliance on one party's interpretation of the sanction creates undue risk and therefore those Panel Members did not support implementation.

Panel Members were unable to determine any impact on Net Zero relating to this Modification.

Panel Members noted that there is no provision for reversal of the arrangements once sanctions are lifted. A further Modification would need to be raised.

Consideration of the Relevant Objectives

Panel Members noted the comments made by the Workgroup that the justifications against the Relevant Objectives identified by the Proposer were the same as for Modification 0813 and that Workgroup Participants had referred to their earlier responses because the solution is nearly identical.

Panel Members considered Relevant Objective *a) Efficient and economic operation of the pipe-line system*, agreeing that implementation would have a positive impact because the Modification will introduce a more efficient and economic means of securing delivery of additional supplies of gas to the Total System to meet the demand from the consumers in the event there are Supply Meter Points without a Registered User as a result of the issue of a UPTN and a Supplier that is acting in accordance with a deed of undertaking. This minimises the risk of system prices not being reflective of supply/demand fundamentals is expected to result in more efficient system usage and hence operation.

Panel Members considered Relevant Objective *c) Efficient discharge of the licensee's obligations*, agreeing that implementation would have a positive impact because the Modification enables other shipper Users to deliver additional gas to the system and/or enable National Gas Transmission purchase NBP gas for this purpose through additional means to the OCM with a forward trading capability. This will better facilitate National Gas Transmission's obligation to perform its functions in an efficient, economic and co-ordinated manner.

Panel Members considered Relevant Objective *d) Securing of effective competition between Shippers and/or Suppliers*, agreeing that implementation would have a positive impact by enabling other shipper Users to deliver additional gas to the system and/or enabling National Gas Transmission to transact for additional volumes to meet the demand of Supply Points in a ringfenced function. The proposed changes are expected to reduce the cost of such gas procurement compared with the status quo and result in lower system prices than would otherwise be the case, thereby mitigating the financial challenges being faced by market participants.

Implementation

Panel Members considered the implementation timeline for this Modification and agreed that Implementation should occur as soon as practicable following the decision to implement the Proposal.

Should the Modification be implemented, Transporters will confirm the exact implementation date for this Modification.

Determinations

Panel Members voted unanimously that no new issues were identified as part of the consultation.

Panel Members voted unanimously that there are no Cross Code Changes for this Modification.

Panel Members voted with 9 votes in favour (out of a possible 14), to recommend implementation of this Modification.

12 Recommendations

Panel Recommendation

Panel Members recommended that this Modification should be implemented.

13 Appended Representations

Initial Representations – None

Representation – National Gas Transmission

Representation – Northern Gas Networks

Representation – Draft Modification Report UNC 0854

Revision of Virtual Last Resort User and Contingent Procurement of Supplier Demand Event Triggers

Responses invited by: **5pm on 22 February 2024**

To: enquiries@gasgovernance.co.uk

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

Representative:	Phil Lucas
Organisation:	National Gas Transmission
Date of Representation:	12 th February 2024
Support or oppose implementation?	Support
Relevant Objective:	<p>a) Positive</p> <p>c) Positive</p> <p>d) Positive</p>
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: *Please summarise the key reason(s) for your support or opposition.*

As the proposer, National Gas Transmission ('NGT') supports the implementation of this Modification Proposal.

The Virtual Last Resort User ('VLRU') and Contingent Procurement of Supplier Demand ('CPSD') mechanisms were introduced to enhance the capabilities of suppliers (acting under a Deed of Undertaking (DoU)) and NGT (respectively) to maintain an appropriate balance between supply and demand in the event that a User is subject to a Termination Notice.

The application (by the UK Government) of sanctions on a User does not constitute a 'User Default' event and therefore the User would remain a party to the UNC. However, given that a User subject to government sanctions would not be able to operate effectively in the market, there would be a consequential increased level of system imbalance risk as that User's ability to contract for delivery of gas to the Total System (to meet the demand of its consumers) would be compromised.

On this basis, we believe that extending the availability of the VLRU and CPSD mechanisms to instances where a User is subject to government sanctions (notwithstanding the fact that the relevant User is *not* subject to a Termination Notice) is

a proportionate and appropriately-targeted step to mitigate the increased imbalance risk this scenario presents to NGT and other market participants.

We believe that implementation would better facilitate the identified relevant objectives compared to the existing baseline. i.e. if the VLRU and CPSD mechanisms were not available where a User is subject to sanctions, there is a risk that higher balancing costs will be incurred by all Users based on their system throughput as such costs will be recovered via Balancing Neutrality, potentially leading to higher system prices.

Governance Statement: *Please provide your views on the self-governance statement or reasons why Authority Direction should apply.*

NGT believe that the requirement for Authority Direction is appropriate in this case due to the potential significant commercial impact on UNC parties associated with the proposed measures.

Impacts and Costs: *Please provide a view on the impacts and costs you would face.*

NGT does not expect to incur any material additional costs as a consequence of the implementation of this Proposal.

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

Implementation is sought as soon as practicable following the decision to implement the Proposal.

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

We are satisfied that the legal text delivers the intent of the solution identified in this Proposal.

Panel Questions: *Panel Members have requested that the following questions are addressed.*

None raised

Error or Omissions: *Are there any errors or omissions in this Modification Report that you think should be taken into account? Please include details of any impacts/costs to your organisation that are directly related to this.*

We have not identified any such errors or omissions.

Additional analysis: *Please provide below any analysis or information to support your representation.*

Not applicable.

Joint Office

enquiries@gasgovernance.co.uk

19/02/2024

Dear Sir or Madam,

0854 – Revision of Virtual Resort User and Contingent Procurement of Supplier Demand Event Triggers

Thank you for the opportunity to provide representation on the above noted Modification Proposal. Please find below Northern Gas Network's (NGN) comments in respect of this change.

NGN supports this Modification Proposal.

Reason for support/opposition:

We support this modification allowing National Gas Transmission to extend the availability of the Virtual Last Resort User and Contingent Procurement of Supplier Demand provisions to include instances where UPTN is issued as a result of UK Government sanctions being imposed. This should allow the continuation of balancing and transportation until an alternative User Registration is in place for the impacted MPRNs, thereby furthering Relevant Objectives a) *Efficient and economic operation of the pipe-line system*, c) *Efficient discharge of licensee's obligations* and d) *Securing of effective competition between relevant Shippers*.

Implementation:

As this is Authority Direction, it should be implemented on a date as directed by the Authority. However, as this mitigates risk we would encourage this to be as soon as practicable.

Impacts and Costs:

None identified.

Legal Text:

We believe that the legal text provided should deliver the Solution set out in the proposal.

Are there any errors or omissions in this Modification Report that you think should be taken into account?

None identified.

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

None.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

Tracey Saunders (via email)
Markets Regulation Manager
Mobile: 07580 215743

Smell gas?

Call the National Gas Emergency
Service on 0800 111 999