

Representation - Workgroup Report

UNC 0642 (Urgent) 0642A (Urgent) - Changes to settlement regime to address Unidentified Gas issues

UNC 0643 (Urgent) - Changes to settlement regime to address Unidentified Gas issues including retrospective correction

Responses invited by: **5pm on 08 February 2018**

To: enquiries@gasgovernance.co.uk

Field Co

Representative:	Beverley Viney
Organisation:	National Grid NTS
Date of Representation:	8th February 2018
Support or oppose implementation?	0642 - Oppose 0642A - Oppose 0643 - Oppose
Alternate preference:	<i>If either 0642, 0642A or 0643 were to be implemented, which would be your preference?</i> 0642A
Relevant Objective:	d) None

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

National Grid NTS does not support Modifications 0642, 0642A or 0643 as we do not believe that any of these modifications better facilitate the relevant objectives. The Workgroup report outlines that 0642, 0642A and 0643 all further relevant objective d) Securing of effective competition, however we do not agree with this position or believe it to be a consensus position of the Workgroup hence the comment in the workgroup report that "Given the difference of opinions these views on the Relevant Objectives were extracted from the modifications and some participants did not agree with these comments:" The suggestion of "returning the market volatility to pre-Nexus levels" proposed by Modifications 0642 and 0643 will increase costs to the market and undo the years of work and investment by the industry into establishing the revised balancing regime introduced as part of Nexus, which was seen as a necessary and progressive step. While we understand that some parties are experiencing challenges with the revised regime and that refinements may be necessary as we progress and the new regime embeds, we do not believe the solutions outlined in 0642 and 0643 to be a progressive step as they are likely to reduce transparency and effectively return to pre-Nexus arrangements.

Whilst Modification 0642A doesn't return to the arrangements for pre-Nexus we still feel it doesn't further the relevant objectives and increases costs to the industry as well as making other changes such as removing the independent AUGÉ. This modification would require DESC and PAC to review their scope of works to ensure that the task allocated by the Modification can be managed, introducing risk.

From the initial high level analysis by Xoserve all the Modifications will introduce substantial costs to the industry and therefore consumer (£1m – £2.2m) with no demonstrable benefit, whilst moving UIG and associated costs around the industry. We conclude that none of the Modifications address the underlying issues of UIG and therefore are unsupportable, however it is worth noting that we believe the work being conducted under Modification 0644 and 0631R is a sensible approach to improving the UIG accuracy position.

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

Should 0643 be implemented transition rules would need to be implemented to allow for retrospectivity.

The suggested implementation date for Modification 0642 of 1st April or 1st May 2018 will introduce additional uncertainty and therefore risk and complexity into the market, this is as a result of the fact that the system will not reflect the current balancing regime and therefore industry participants will be balancing their portfolios to a different regime to the position visible in the Gemini system for a considerable period.

The suggested implementation date for 0624A of the start of the gas year or 1st of the month dependant on system changes is sensible.

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

The proposed changes are estimated to be in the region of £1m to £2.2m (on the current high level estimates provided by Xoserve), with a large proportion of this attributable to Gemini system changes and associated market trials. Should any of these Modifications be implemented, we would like careful consideration of the apportionment of these costs to be considered by the DSC Change Committee under 4.1 of the DSC Change management procedure, as National Grid NTS is not a direct beneficiary of the changes proposed.

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

Yes

Are there any errors or omissions in this Workgroup 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

There are substantial costs to implement the Modifications (range £1m to £2.2m on current high level estimates provided by Xoserve) with no direct demonstrable benefit to the consumer. The Modifications will not reduce the overall levels of UIG in the market, they purely change the distribution of the costs, as consumers have already paid for an expensive Nexus system, these Modifications would be an additional cost for the consumer with no direct value for them.

The Modifications would create a period of significant change for the industry with market trials expected to be required by the industry, at a time where there are already a considerable number of changes being undertaken. This will add to the change congestion with no apparent benefit to the consumer, and may even impact other changes that are of value to them.

There is expected to be long delivery times for the proposed changes of between 35-50 weeks and we consider that it would be more appropriate for the industry to concentrate on the Modifications and Requests which are already being developed to improve the underlying data and calculations associated with the settlement regime and therefore naturally addressing the underlying issues (0644 and 0631R).

We believe that the request for implementation of Modification 0642 on 1st April 2018 or 1st May 2018 will introduce additional risk and complexity, as industry participants would be balancing to a different regime to the system position. This may cause the system to be out of balance and could impact the residual balancer as the system would not be aligned for a further period of circa 46 weeks after implementation.

Additionally, Modification 0643 has the retrospective element, to back date the change to 1 June 2017. Introducing a retrospective change of this kind is something that is not usually supported by the industry, and is not supported by National Grid NTS.

It is worth noting in any 'Fixed UIG Percentage' model there is a likely impact on Residual Balancer and its actions which is two-fold and due to the short development timescales hasn't been fully considered, however at a high level:

1. In the solution outlined in 0642 and 0643, all other things being equal, failing to allocate the LDZ UIG balancing quantity as UIG is a fixed value the NTS Shrinkage Provider will see a commercial NTS Imbalance and factor that into future days NTS shrinkage balancing actions (with costs passed through commodity charges). Assuming measurements were accurate the Residual Balancer would not have seen any initial change in linepack, however, the Shrinkage Providers management of NTS Imbalance will change physical flow, impact linepack change, and potentially Residual Balance actions (with cost through Neutrality). In addition to the above for all of the modifications if LDZ portfolio shippers are not factoring the balancing quantity (and/or UIG) into their balancing actions there will be a bias in the physical balance (linepack change) which may influence Residual Balance actions and create costs for the industry.