

Representation - Modification UNC 0791 (Urgent)

Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking

Responses invited by: **Midday on 24 December 2021**

To: enquiries@gasgovernance.co.uk

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

Representative:	Mark Jones
Organisation:	SSE Energy Supply Limited
Date of Representation:	24 December 2021
Support or oppose implementation?	Support
Relevant Objective:	<p>a) Positive</p> <p>c) Positive</p> <p>d) Positive</p>

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

The modification will allow National Grid NTS to be able to purchase gas other than from just on the OCM, which is likely to reduce overall industry costs. It will also allow National Grid NTS to recover costs faster than would be otherwise be possible via its residual balancer role, which will reduce the risk of negative cashflow implications on National Grid NTS.

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

We would like to see the modification implemented as soon as possible, in order that the risks identified, that led to it being raised, can be mitigated at the earliest opportunity.

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

We have not identified any significant costs with implementing this modification.

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: CPoSD role start trigger:

Do you believe the trigger of 10,000,000 kWh for commencement of the CPoSD role is appropriate? This figure of 10,000,000 kWh is considered to be a reasonable threshold for action to be taken separately to residual balancing, given that the average absolute shipper imbalance on days when no residual balancing trades were undertaken by National Grid NTS over the period 01/10/20 to 30/09/21 was 13.3GWh/day and was 13.1 GWh/day over the same period when the system was short of gas. If not, please justify your answer - do you have an alternative figure and why is this more appropriate?

Yes, we believe that this trigger level is appropriate. This figure was discussed during the Modification 0789 workshops and the participants at those workshops largely concluded that this is an appropriate figure.

Q2: CPoSD role end trigger:

Do you believe the trigger of 100,000 kWh for ending of the role of the CPoSD is appropriate? A minimum volume of 100,000 kWh is proposed because this is approximately the minimum trade quantity available on the OCM. If not, please justify your answer.

Yes, we believe that this trigger level is appropriate. This figure was also discussed during the Modification 0789 workshops and the participants at those workshops largely concluded that this is an appropriate figure.

Q3: CPoSD role performance

Considering the new role for National Grid NTS of CPoSD and the need for economic and efficiency in decision making, do you believe that the wording in the commentary (see below) relating to UNC Section D 6.3.4 "on an economic basis"

<i>New paragraph 6.3.4</i>	<i>And when purchasing gas under paragraph 6 National Grid NTS will aim to do so on an economic basis.</i>
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- i) has a legal definition, - No*
- ii) provides sufficient protection to industry or not and - Yes*
- iii) could have any unintended consequences or not? - Yes*

Please provide an explanation for each response.

Insert Text Here

- i) We do not believe that "on an economic basis" has a legal definition and we do not think that it is required to be a defined term within the UNC.*
- ii) Whilst we do not believe that "on an economic basis" is required to a defined term, the fact that as it is in the UNC, we would expect National Grid NTS to take account of it and act in this manner. If the current situation is considered, with National Grid NTS only purchasing on the OCM, this gives no further protection to industry and, in all probability, implementation of UNC 0791 is likely to result in a more favourable outcome than the status quo.*
- iii) An unintended consequence is that, with hindsight, there may have been instances where purchasing only on the OCM would have resulted in a more*

favourable outcome, but this outcome is a possibility of any act of forward gas purchasing that could have been left to a later date.

Q4. CPoSD monitoring and audit

Do you have any views on an appropriate monitoring and audit process for this new CPoSD role?

We would expect NTS to report its actions undertaken to Ofgem if required, and NTS will provide aggregate gas purchasing costs on a monthly basis.

Ofgem have requested that the following questions are addressed:

Q5. What is the likely impact on consumers, industry and the market if the status quo for shipperless sites was maintained this winter (the status quo being National Grid NTS procuring the gas for shipperless sites through Residual Balancing)? Please justify if you think it is necessary to have an alternative solution in place.

The likely impact is unknown at this point if the status quo was maintained for this winter, as to the future likelihood of further shippers failing and leaving shipperless sites is not known, and so the number and size of sites that would be left shipperless is unlikely to be able to be reasonably estimated. However, it must be recognised that UNC 0791 was raised some time ago and by the time the modification process is completed, we will be over half-way through the winter and, therefore, the size of the concern that National Grid NTS initially had when it raised UNC 0789, will have naturally eroded. That said having the UNC 0791 solution in place is a very useful risk mitigation tool for National Grid NTS, is likely to result in lower industry costs if it is required to be used, and it has the benefit that a fairly low cost solution is required in order for it to be put in place in the interim.

Q6. What is the likely impact – both positive benefits and negative consequences/risk - of UNC0791 and the Contingency Gas Procurement Arrangements on consumers, industry and the market?

We believe that UNC 0791, if it is enacted at some point due to the trigger point being reached, will lead to lower overall gas costs and is likely to result in lower system prices as gas purchasing would be smoothed out over a longer period, and so is less likely to lead to price spikes on the OCM.

Q7. What do you see as the costs and/or risks of National Grid NTS operating in markets outside of the OCM in this manner?

The risks are that National Grid NTS purchases gas that is more expensive than would have been the case if it had purchased all of the required gas on the OCM, However, this an inherent risk in operating in multiple markets that react to pricing signals and it is far more likely that National Grid NTS will lower costs to the industry by operating in markets other than the OCM.

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.*

No.

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