

Representation - Draft Modification Report UNC 0813

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

Responses invited by: **5pm on 17 January 2023**

To: enquiries@gasgovernance.co.uk

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

Representative:	Phil Lucas
Organisation:	National Grid NTS
Date of Representation:	16 January 2023
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 (in one paragraph) the key reason(s)

As the proposer, National Grid NTS ('National Grid') 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 National Grid (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 National Grid 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.

Implementation:

Implementation is sought as soon as practicable following the decision to implement the Proposal. As Self-Governance procedures are applicable, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

Impacts and Costs:

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

Legal Text:

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

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

We have not identified any such errors or omissions.

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

Cessation of the relevant User's Supply Point Registrations via issue of a User Premises Termination Notice (UPTN) is required in order to trigger the enactment of the Supplier Deed of Undertaking which, under the existing rules, is one of the conditions of the Virtual Last Resort User (VLRU) and Contingent Procurement of Supplier Demand (CPSD) mechanisms becoming available.

If this Proposal is implemented and if a User is subject to a UPTN, we recognise this would have a material impact on that User. It is for this reason that we have proposed the inclusion of an appropriate check and balance that the Authority has the opportunity to Disapprove of National Grid's proposed issue of a UPTN. The Disapproval mechanism (i.e. ability to veto to the proposed action/change) is an established process which is provided for in GT Licence Condition 11(18), as reflected in the UNC General Terms. Whilst an 'Approval' process (requiring positive consent to a proposed action/change) is *also* provided for, the rationale for preferring the Disapproval process over the Approval process for the purposes of this Proposal is:

- **timeliness:** timeliness of a decision/action will be key given the potential materiality of the increased imbalance risk and therefore appropriate opportunity for Disapproval is our preferred approach such that timely action is not frustrated. An alternative requirement for the Authority to provide an Approval may require completion of additional governance steps by the Authority which may extend the timescale in which this action can be endorsed under this alternative approach; and
- **mutual agreement of Disapproval deadline:** under this Proposal, the time within which the Authority may issue disapproval is required to be mutually agreed between the Authority and National Grid and therefore we envisage that in practice the Authority would *not* agree to a Disapproval deadline that would afford it insufficient time to fully consider the matter. This mandated agreement of the deadline for Disapproval will therefore address the risk of a UPTN being issued in absence of agreement by the Authority.

On the basis of the above, we are comfortable that the proposed issue of a UPTN would have the appropriate regulatory oversight; and that such oversight would be actioned in a timely manner.