UNC Modification	At what stage is this document in the process?

UNC 0813:

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

01 Modification
02 Workgroup Report
03 Draft Modification Report
04 Final Modification Report

Purpose of Modification:

To extend 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 Grid NTS issues a User Premises Termination Notice. 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.

Next Steps:

The Proposer recommends that this Modification should be:

- considered a material change and not subject to Self-Governance; and
- assessed by a Workgroup

Impacted Parties:

High: Suppliers, Shippers, Distribution Network Operators, independent Gas Transporters, Consumers

Low:

None:

Impacted Codes:

Contents

Timetable

Modification timetable:

Pre-Modification Discussed	07 July 2022
Date Modification Raised	08 July 2022
New Modification to be considered by Panel	21 July 2022
First Workgroup Meeting	04 August 2022
Workgroup Report to be presented to Panel	19 January 2023
Modification Proposal issued for consultation	19 January 2023
Consultation Close-out for representations	09 February 2023
Final Modification Report available for Panel	14 February 2023
Modification Panel recommendation	16 March 2023
Final Modification Report issued to Ofgem	17 March 2023

Any questions?

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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 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 Shipper User relationships to source additional supplies of gas and make trade nominations to the Terminated Shipper 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, National Grid NTS 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 availability/application of both the VLR and CPSD mechanisms are contingent on the occurrence of a User Termination in the first instance.

However, in exceptional circumstances National Grid NTS ('National Grid') may issue a notice (a '**User Premises Termination Notice**' (UPTN)) to a Shipper User (User') which 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 be issued as a consequence of the application of sanctions by the UK government and will set out the reason(s) for the issue of this notice and the date from which the registration of the relevant Supply Meter Points is to be discontinued.

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 the registration of the relevant Supply Meter Points is discontinued.

How

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 National Grid issuing a UPTN to a User as a consequence of the application of sanctions by the UK government.

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 D6.12 shall apply accordingly.

2 Governance

Justification for Authority Direction

There is currently a risk of a Shipper 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 0788[1] and 0791[2]. 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 to extend the availability of these mechanisms to instances where the Authority 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 applicable.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance; and
- be assessed by a Workgroup.

3 Why Change?

Existing UNC Terms

As a consequence of User (Shipper) Termination, a Supplier may operate (in respect of all or some of the Terminated Supply Meter Points) under the terms of a binding Undertaking it has given to Transporters[3] (i.e. where there is no Registered User in place for the relevant Supply Meter Points). In this case the Supplier 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 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 order to mitigate the consequential risk of a material system imbalance (shortfall) the UNC provides for:

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

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

[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

- **CPSD** as per TPD Section D6.

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

User Premises Termination Notice

The availability/application of both the VLRU and CPSD mechanisms are currently contingent on the occurrence of a User Termination in the first instance. However, in exceptional circumstances National Grid may issue a notice (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 registration of the relevant 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 registration of the relevant Supply Points is discontinued.

Following the issue of a UPTN, Transporters will issue notice[4] 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 in accordance with the binding undertaking it has given to Transporters.

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 binding undertaking to Transporters 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.

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 National Grid evaluates in its role as Residual Balancer. As identified in Modification 0791, National Grid 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 via a wider range of tools and timescales by National Grid NTS in its CPSD role

This would enable the minimisation of such imbalance volumes and facilitate the efficient procurement of any gas required to maintain Operational Balance[5].

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

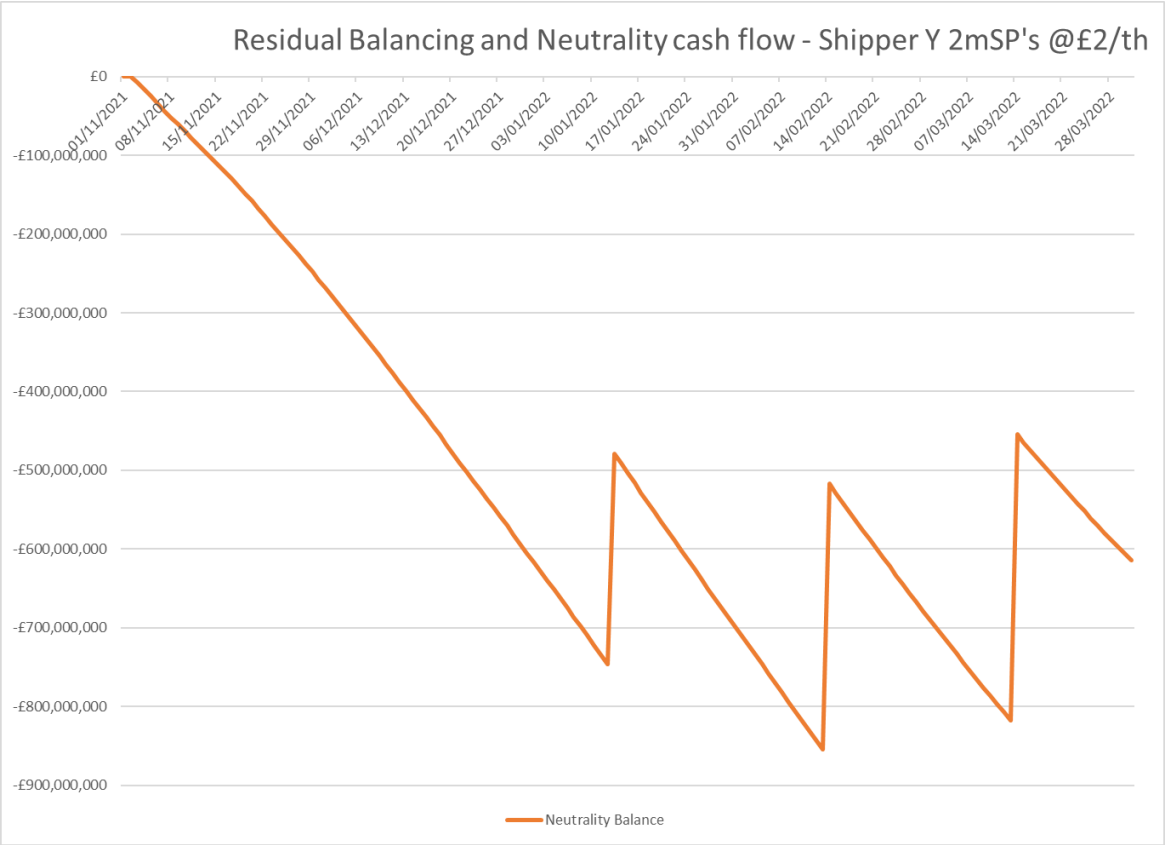
[5] See UNC TPD Section D1.1.1

Potential Materiality

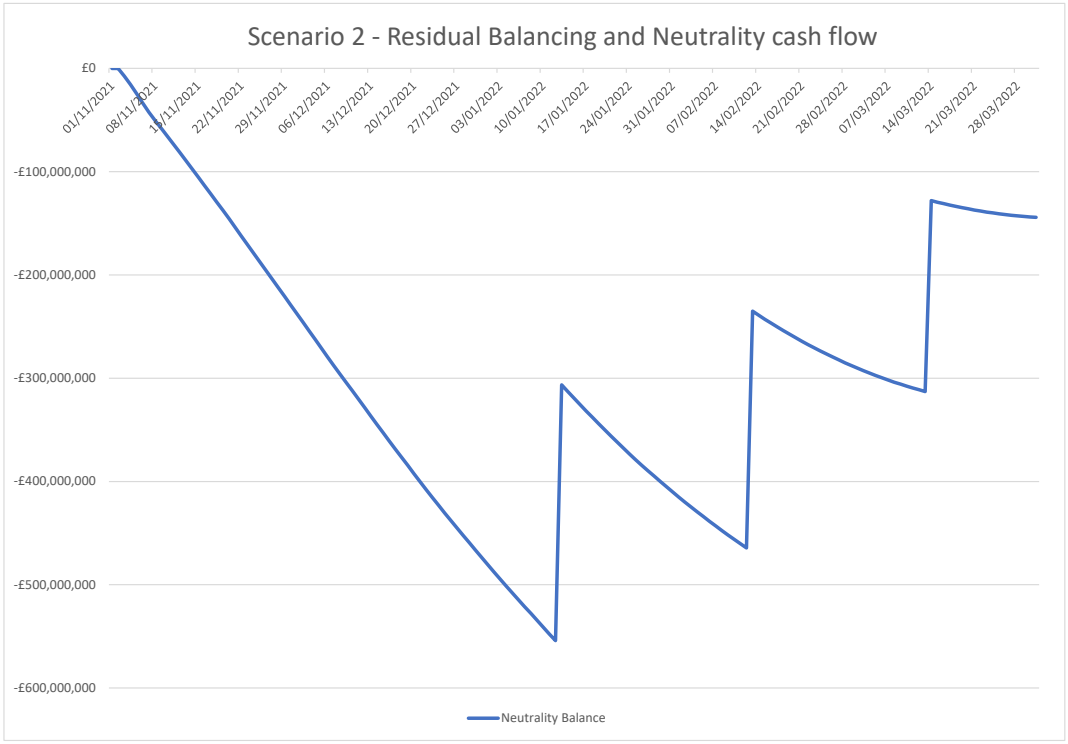
National Grid NTS previously provided analysis to demonstrate materiality in the context of the issues identified in Modification Proposal 0791 using an illustrative Shipper portfolio size. The analysis previously provided for Modification Proposal 0791 applies equally to this Proposal in terms of illustrating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

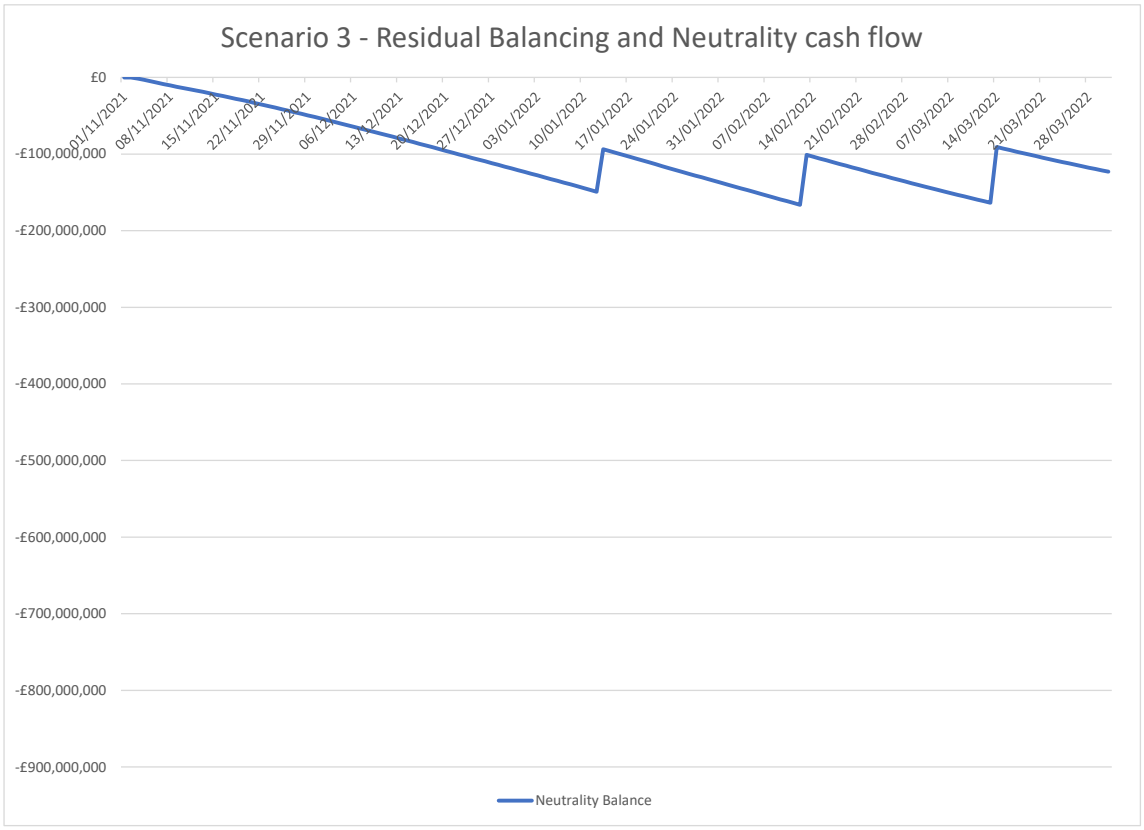
1) *Assuming no migration of supply points from the failed shipper, peak neutrality exposure of ~£854m*



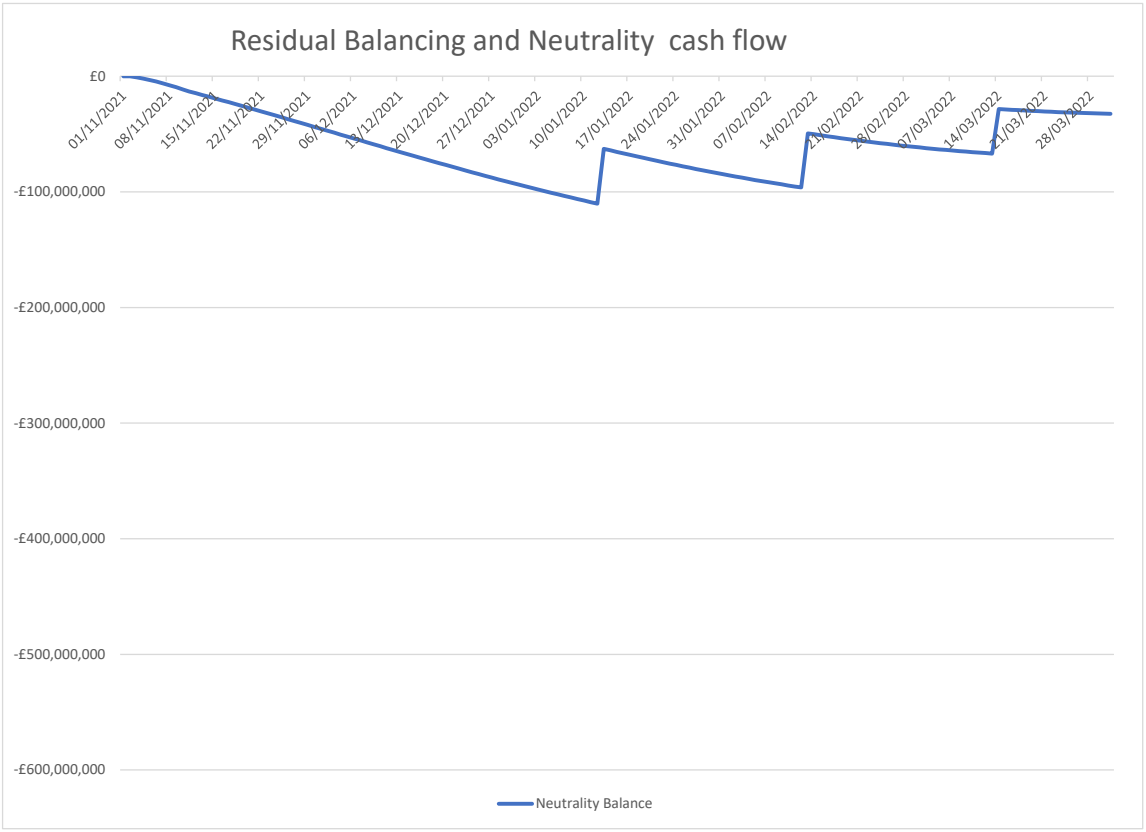
2) *Assuming a steady migration of supply points to other shippers (peak neutrality exposure of ~£554m)*



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'[6] 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

[6] https://www.gov.uk/government/publications/bulb-energy-limited-consent-to-apply-for-a-special-administration-regime

Scenario 2: £110m

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

Knowledge/Skills

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

5 Solution

It is proposed that National Grid may issue a UPTN to a User as a consequence of the application of sanctions by the UK government. Where National Grid proposes to issue such a notice, it shall issue a provisional version of this to the Authority affording it the opportunity to issue (by the deadline specified in the provisional notice) Disapproval to the issue of this notice (as provided for under Standard Special Condition A11(18) of the Transporter's Licence).

It is proposed that the 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 the issue of a UPTN to the relevant User.

It is proposed that from the date from which the registration of the relevant Supply Meter Points is discontinued, 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 D6.12 shall apply accordingly.

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

- any Supply Meter Point Nominations and Supply Meter Point Confirmations (submitted by the User subject to the UPTN) that are 'in flight' shall lapse;
- 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 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.

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 National Grid 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 National Grid 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

Lower bills than would otherwise be the case This Modification is expected to enable National Grid 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.	Positive
Reduced environmental damage	None
Improved quality of service	None
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.	Positive

Cross-Code Impacts

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

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 National Grid 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.

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:	Positive

(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.	
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 National Grid to purchase NBP gas for this purpose through additional means to the OCM with a forward trading capability will better facilitate National Grid'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 National Grid 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.

8 Implementation

Implementation is sought as soon as practicable given the current risk that a UPTN will need to be issued by National Grid 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

Text Commentary

TBC.

Text

TBC.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply; and
- Refer this proposal to a Workgroup for assessment for a period of six months.