

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:	Julie Cox
Organisation:	Energy UK
Date of Representation:	23 December 2021
Support or oppose implementation?	Comments Only
Relevant Objective:	<p>a) None</p> <p>c) None</p> <p>d) None</p>

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

Energy UK provides comments only on this modification. We understand the issues and consider that this may be a better option than that outlined in modification 0789, which was subsequently withdrawn. However, we have concerns about the need for urgency, based on the commercial impact on parties, consumers or other parties. Urgent procedures do not allow time for workgroup meetings to explore the proposal in more detail, and we are concerned this creates the risk of unintended consequences for industry parties. Further the number of questions posed by panel and Ofgem shows that there are concerns over the proposal, its application and consequences.

Assessment against the relevant objectives has not been carried out since apparent positive impacts could be neutralised by negative consequences which could arise and have not been assessed.

It is not clear to industry whether this proposal is needed at all, whilst there continues to be unprecedented high gas prices, it is more common for suppliers than shippers to fail. We note National Grid considers the CNG failure has largely been dealt with¹. Only Ofgem has sight of information which informs the likelihood of further shipper failure.

¹ <https://www.gasgovernance.co.uk/sites/default/files/ggf/2021-12/Minutes%20Panel%20282%20v1.0.pdf>

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

Energy UK welcomes the clarification note issued on 8 December², since the implementation timescales were unclear in the modification proposal. Further consideration needs to be given to when and if industry is notified when the start and end triggers are met, beyond 'as soon as reasonably practicable'. Receipt of an early energy balancing invoice should not be a surprise to shippers.

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

Not applicable

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

Legal text has not been reviewed

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?

Due to the limited time available Energy UK has been unable to canvas member views on this value

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.

Due to the limited time available Energy UK has been unable to canvas member views on this value, but linking it to the minimum trade quantity seems reasonable

Q3: CPoSD role performance

²<https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-12/Clarificatory%20Note%20on%20Implementation%20of%20Modification%20Proposal%200791%20%28Urgent%29.pdf>

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>
----------------------------	--

- i) has a legal definition,*
- ii) provides sufficient protection to industry or not and*
- iii) could have any unintended consequences or not?*

Please provide an explanation for each response.

Insert Text Here

- i) 6.3.5 refers to economic purchase, but this is not a defined term. Therefore, interpretation of the common meaning of this phrase will be required to assess whether purchases were economic or not.
- ii) It seems to provide very limited protection to industry; it is not clear what the monitoring and audit process will be to determine whether economic purchase has been achieved. Timescales for review are likely to be well after the event which carry the risk of increased market uncertainty and retrospective adjustments. However, we also accept that defining a prescribed approach to trading also brings risks
- iii) Unintended consequences with financial consequences for shippers can arise from price movements between the point of purchase and the relevant day such that the average purchased price has a large differential from the SMP buy price that suppliers will need to pay, which could leave the neutrality pot with significant positive or negative revenue. This can also arise if volumes change, not only arising from seasonal weather effects but also if customers are transferred to a new shipper or supplier. Lack of any transparency over trades by the CPoSD leaves shippers blind to the neutrality impact and likely bill before it arrives. After the first bill shippers may guess the impact and try to adjust throughput accordingly, which could lead to complex market impacts.

Q4. CPoSD monitoring and audit

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

The modification proposal states that National Grid will not be obliged to publish the volumes or prices at which it has bought or sold gas.

We agree that this approach is correct but that this information should be provided to Ofgem to help it assess whether National Grid has met the economic purchase criterion in the UNC text and acted in accordance with its licence. Sanctions in the case of non-economic purchase are not mentioned.

However in order to provide industry with confidence in this approach information should be published in a summarised format for each day as soon as possible after the day.

Perhaps as follows:

- Forecast demand
- Volume purchased, net of sales
- Average purchase price
- SMP Buy price

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 impact on consumers, industry and the market under the status quo depends on whether further shipper failures are likely. Industry does not have information to form a view on this.

The current arrangements could lead to a higher SMP buy price being set than if alternative arrangements of this type were put in place. But it is not simple to assess the impact of this on the market and consumers. Under the current arrangements the full volume required for failed shippers' customers sits as part of the system imbalance position, so only the net position would need to be purchased on the OCM if the system is otherwise long. The opposite may also be true.

National Grid trades on the OCM are also reported via MIPI in aggregate, so there is more transparency than under this proposal.

There may be merits in having an alternative solution in place, to the current arrangements, but whether this proposal should be implemented rapidly is an open question due to the risk of unintended consequences, which are likely to be informed by the magnitude of shipper portfolios at risk of failure.

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?

See comments above, impacts likely to depend on magnitude of shipper portfolios at risk of shipper failure.

Lower SMP buy values could reduce supplier failures but this may be marginal or negligible in reality, and needs to be considered alongside comments under 3 iii above where SMP buy is not reflective of the overall cost of gas purchased by National Grid on the day due to its purchasing strategy and market movements. This in turn could lead to sizable neutrality costs / payments.

Ring-fencing of the demand of the failed shippers' customers and purchasing largely ahead of the day could contribute to a long system on the day which requires the same and potentially additional volumes to be sold on the day to balance the system, driving

down the SMP buy price and creating mismatch between the neutrality pot and supplier contribution, increasing neutrality costs to shippers.

Lack of transparency of the overall traded position vs SMP buy leads to the risk of shippers receiving unanticipated bills in balancing neutrality invoices.

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?

National Grid currently trades in markets other than the OCM for purchasing shrinkage gas, however trading for a customer portfolio is rather different and especially when the market is volatile and likely to be influenced by hard to predict external events.

National Grid's trading strategy will therefore create additional risk for shippers which may result in higher or lower costs overall than the current approach.

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.*

Monitoring, audit and data transparency are key issues not addressed in the report. Also any interaction of the CPoSD role with commercial operations is not clear.

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

Insert Text Here