

## Representation Draft Modification Report

### Modification 0791 (Urgent) - Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking

1. **Consultation close out date:** 24<sup>th</sup> December 2021 (1200 hrs)
2. **Respond to:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)
3. **Organisation:**  
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4. **Representative:**  
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0799 097 2568 / 0751 799 8178
5. **Date of Representation:** 23<sup>rd</sup> December 2021
6. **Do you support or oppose Implementation:**  
We **Support** implementation of the Modification
7. **Please summarise (in 1 paragraph) the key reason(s) for your position:**  
Whilst we welcomed National Grids (NGrids) modification 0788 (Urgent) - Minimising the market impacts of 'Supplier Undertaking' operation we had a number of concerns in relation to 0789 - Energy Balancing Arrangements During the Operation of a Supplier Undertaking to Transporters. We participated in the unofficial workshops held by NGrid and supported by the Joint Office and as a result we drafted an alternative proposal that would introduce the concept of a new service discharged by NGrid. This proposal had strong support and we welcome NGrids decision to withdraw 0789 and adopt our proposal via 0791.  
  
**We believe this provides a fair and reasonable solution for exceptional circumstances were the use of the existing Residual Balancer role would be inappropriate, inefficient and detrimental.**
8. **Are there any new or additional Issues for the Modification Report:**  
**No**

**9. Self-Governance Statement Do you agree with the status?**

**Not Applicable**

**10. Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

We **agree** with the proposer that this modification is positive in respect of Relevant Objective(s) **(a)**, **(c)** and **(d)**

**(a)** Using the Residual Balancer role to procure large volumes from the OCM would be inefficient and materially impact the system prices to the detriment of consumers who ultimately bear the costs

**(c)** Providing NGrid with the ability to more effectively purchase energy will better facilitate NGrids efficient discharge of its obligations

and

**(d)** By more efficiently purchasing energy the overall costs will be lower and any mutualisation risk will be reduced versus the status quo.

**11. Impacts & Costs:**

*What analysis, development and on-going costs would you face if this modification was implemented?*

We **have not** identified any significant costs associated with the implementation of this modification

**12. Implementation:**

*What lead times would you wish to see prior to this modification being implemented, and why?*

**As soon as reasonably practicable** as until this modification is implemented, we remain exposed to the inefficiencies of the current arrangements

**13. Legal Text:**

*Are you satisfied that the legal text will deliver the intent of the modification?*

We have not reviewed the Legal Text provided.

**14. Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.*

**No**

Modification Panel Members & Ofgem 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?

**We believe the proposed threshold is appropriate** and is based on analysis of 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. It is important that balancing actions are correctly “ring fenced” to ensure that system prices continue to provide adequate incentives to balance. A lower threshold would, based on historical evidence, detract from this objective.

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.

**We believe the proposed threshold is appropriate** as it is based on approximately the minimum trade quantity available on the OCM. An alternative (higher) figure would create uncertainty for NGrid when acquiring gas resulting in an inefficient outcome.

### **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"**

**New paragraph 6.3.4 And when purchasing gas under paragraph 6 National Grid NTS will aim to do so on an economic basis.**

- 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.**

We note the answers to the relevant objectives and that the service whilst new is one of a number of activities undertaken by NGrid in accordance with its licence. We see little benefit in expanding upon the drafting already set out in the legal text as any attempts to measure performance are likely to be subjective, as they will not be sufficiently flexible to reflect the market conditions at any one time. The limitations placed on NGrid to purchase gas on a longer- and shorter-term basis have more meaning and will dilute the potential for exposure to shifting market prices, thereby protecting industry and minimising the possibility of unintended consequences.

### **Q4. CPoSD monitoring and audit**

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

Whilst it may be appropriate, after the event, to review the performance of the new service we believe Ofgem already has sufficient powers to request information as required to assess the efficiency of NGrid in discharging the role. We anticipate, however, that post-event, NGrid (and Ofgem) will share details on NGrid's performance.

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.**

We note the considerable cost that would have been incurred had the Energy Balancing Credit Committee (EBCC) terminated Contract Natural Gas (CNG) as a Shipper. Fortunately, and working with both Ofgem, CNG, Glencore and the EBCC the industry was able to avoid the material consequential impact of the large-scale use of the Residual Balancer (RB) role. As part of its analysis the EBCC identified the costs of being exposed to using the RB role to fulfil the full unfulfilled demand, without taking into account the impact on the On the Day Commodity Market (OCM) such large demands which would have pushed prices higher, to be significant. While prices remain high, which is anticipated to be the case for the remainder of the winter, there remains a risk that shippers may experience financial difficulties and it can not be assumed, and is unlikely, that future market exits will be capable of being managed in a similar measured way.

**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 note the views given in relation to the relevant objectives with respect to the positive benefits arising.

**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?**

NGrid already operates outside the OCM for other operational requirements and were it does, so it is accordance with its Licence to Operate. We note the specific circumstances under which this role would be utilised and the detrimental impact that would arise if the existing Residual Balancer role was to be relied upon under these exceptional circumstances.