

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:	Lauren Jauss
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	24 December 2021
Support or oppose implementation?	Oppose
Relevant Objective:	<p>a) Negative</p> <p>c) Negative</p> <p>d) Negative</p>

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

Given that National Grid NTS is already procuring gas for shipperless suppliers using current liquidity on the OCM, we question whether this is still an urgent modification proposal. Industry has had very little time to review this proposal, and we are concerned that many Users will not be aware of the potential implications. We are concerned that the proposed arrangements do not incentivise suppliers to seek alternative shippers which should be the primary objective, but appears to accommodate “shipperless” status for the medium term.

We believe it is appropriate to ringfence the CPoSD trading activity so that it does not impact SMP Buy for other Users with respect to their Energy Imbalance costs. However, we are concerned that there could be a significant mismatch between the Energy Balancing Charges payable by the Supplier pursuant to the deed of undertaking at SMP Buy price and the costs associated with the trading activity carried out by the CPoSD. We note that National Grid NTS considers this to be a risk because the proposal includes an accelerated cost recovery process in case of this very scenario.

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

We do not support this modification. We believe that it was raised to address concerns regarding default of a shipper which has now already occurred and does not appear to be having a particularly material impact on market prices. We are not aware at the current time of any other shippers at risk of default that would justify urgency for this proposal.

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

If we understand the proposal correctly, we would be exposed to the uncertainty and cost of the difference between the CPoSD trading activity and the Energy Balancing Charges payable by the Supplier pursuant to the deed of undertaking based on our share of NTS throughput each day. This would be the case for all Users, but we anticipate that many Users will not be aware of the proposed socialisation of the CPoSD costs via the Balancing Neutrality account.

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

No comment

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?

We agree that 10,000,000 kWh/day is probably an appropriate trigger level to activate the CPoSD based on liquidity in the OCM.

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 do not understand why the minimum traded “clip” size is a good basis for ending the role of the CPoSD. We think it would be more appropriate to use OCM liquidity as a determinant, and would suggest that a rolling average forward Forecast Requirement (e.g. a 7, 14 or 30 day time horizon) at a level slightly lower than the trigger (e.g. 28,000,000 kWh/day) would be much more appropriate to avoid continually activating and de-activating the CPoSD, whilst remaining activated only when necessary.

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

Please provide an explanation for each response.

i) We do not believe the term “on an economic basis” is sufficiently defined, and believe that the time periods when the CPoSD is permitted to procure gas should be carefully controlled to minimise the uncertainty in Balancing Neutrality costs to Users. We note that the CPoSD would have immediate autonomy to trade front month contracts in the OTC market, whereas within-day or even day-ahead OTC markets may have sufficient liquidity for the CPoSD to cover its requirements.

ii) The CPoSD should only procure gas as far ahead in time as is necessary and utilise the liquidity as close to delivery as possible. The larger the gap in time between CPoSD gas procurement and delivery, the greater the mismatch between Energy Balancing Charges and the cost of the trading activity carried out by the CPoSD is likely to be.

iii) If Users anticipate a highly positive or highly negative Balancing Neutrality account, they may increase or decrease their throughput in order to intentionally take a larger or smaller share. Hence the balance in the Balancing Neutrality account should be minimised as much as possible.

Also, we note that as soon as the trigger is met, the CPoSD must immediately procure no less than 30% of the Forecast Requirement from balance of month or front month. This could result in an immediate fall in the use of OCM liquidity below the trigger, and believe an alternative arrangement without a step downwards would be more appropriate.

Q4. CPoSD monitoring and audit

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

National Grid NTS should be required to publicly announce when the CPoSD role is activated and de-activated and report daily on how much volume has been procured for each delivery day. Users will need to anticipate any costs associated with funding CPoSD trading activity, particularly given the proposed accelerated payment terms which gives limited time to plan cash requirements.

Meanwhile, there appears to be no incentive for National Grid NTS to seek to minimise or be accountable for the costs of CPoSD gas procurement. Essentially, the proposed

arrangements appear to be designed for the CPoSD to carry out a hedging activity, rather than just ensuring sufficient access to liquidity. These are two very different roles in our opinion, and stakeholders have not had sufficient time to consider the implications.

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.

Given that one shipper has already defaulted and we are not aware of any other impending shipper defaults, and given that National Grid NTS is already procuring gas for the resulting shipperless sites, we are not aware of the necessity to have an alternative solution in place. We do not know whether the CPoSD role would be triggered by National Grid's current gas procurement activity for shipperless sites. We are concerned that if this proposal is implemented, Users may receive a large and unexpected Balancing Neutrality invoice starting in February 2022.

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?

Users will face uncertainty in the cost and cash required to fund any deficit in the Balancing Neutrality account, and may price this risk capital cost into their business activity. If Users anticipate a highly positive or highly negative Balancing Neutrality account, they may increase or decrease their throughput in order to intentionally take a larger or smaller share.

We do not believe that industry has had sufficient time to understand the consequences of this proposal.

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?

We do not think it is appropriate for National Grid NTS to be able to take speculative decisions on the timing of gas purchases from one day, week, or even month to the next. This may result in unintended conflicts of interest, and National Grid NTS may need to comply with REMIT Article 3 Paragraph 1 which prohibits insider trading if the CPoSD role does not fall under the exclusion of a transmission system operator because it is not purchasing natural gas in order to ensure the safe and secure operation of the system.

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.*

We are not aware of any errors or omissions.

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

We do not have any further relevant information.