









UNC Final Modification Report	At what stage is this document in the process?
<h1>UNC 0791 (Urgent):</h1> <h2>Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></p> <p>To introduce new arrangements to enable National Grid NTS to procure gas where, following the termination of a Shipper User providing shipping services to one or more Gas Suppliers, no new Shipper User (a 'Registered User') is appointed and one or more of the Suppliers acts in accordance with its deed of undertaking until such time a new Registered User is in place.</p>	
<p><b>Next Steps:</b></p> <p>The Panel recommends implementation.</p>	
<p><b>Impacted Parties:</b></p> <p>High: Suppliers, Shippers, National Grid NTS, Consumers</p> <p>Low:</p> <p>None: Distribution Network Operators</p>	
<p><b>Impacted Codes:</b></p> <p>None.</p>	

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Timetable			
Modification timetable:			
Modification raised and sent to Ofgem	01 December 2021		
Panel Recommendation on Urgency (if requested)	07 December 2021		
Ofgem Decision on Urgency	08 December 2021		
Modification Proposal issued for consultation	09 December 2021		
Consultation Close-out for representations	Midday on 24 December 2021		
Final Modification Report available for Panel	By 06 January 2022		
Modification Panel recommendation	12 January 2022		
Final Modification Report issued to Ofgem	12 January 2022		

# 1 Summary

## What

In a User Termination scenario where the relevant terminated Shipper User provides shipping services for one or more Suppliers, such Supplier(s) is required by their Supplier Licence to make timely arrangements with a 'new' Shipper to act as the Registered User for their respective consumers ('Supply Points').

Whilst continuity of shipping arrangements at all Supply Points is the preferred outcome, if there is a period during which no replacement Shipper User is appointed, industry arrangements are in place (via a Supplier's 'deed of undertaking') which provide for the Supplier to pay the Transporter all relevant charges for gas taken out of its pipeline system from the date the Shipper User Termination takes effect. This covers both Transportation Charges and Energy Balancing Charges.

## Why

The Supplier's 'deed of undertaking' recognises 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. Hence the Energy Balancing Charges (payable by Supplier pursuant to the undertaking) operate on the assumption of the relevant Supplier delivering no (zero) gas to the Total System on each of the relevant days. Consequently, the Supplier is effectively required to pay for all its consumers' gas demand at the SMP Buy cashout price.

In respect of physical delivery of gas, National Grid NTS in its role as residual balancer would, all other things being equal, typically then take system buy balancing actions to secure the delivery of additional supplies to the Total System to meet the demand of the relevant consumers. In taking such actions, National Grid NTS, as the residual balancer, is held cash neutral as the costs are recovered via Balancing Neutrality Charges.

Under the terms of the UNC TPD Section F, Shipper Users are individually incentivised to balance their supply and demand, with National Grid NTS acting as the residual balancer through enacting trades on the On the Day Commodity Market (OCM). However, given the current market conditions, with an increased risk of Shipper failure, there is a material increase in the likelihood of National Grid NTS, in its role as residual balancer, having to secure material volumes of gas to meet the demand of the relevant consumers, where a Supplier acts in accordance with its deed of undertaking until a new Registered User is in place. The implementation of Modification 0788 should help to mitigate this, by enabling a Supplier to contract with another Shipper for volumes to be delivered and accounted for against the terminated Shippers' portfolio, however this is a voluntary arrangement that the Proposer considers should be supplemented by this Proposal.

Shipper balancing is integral to the operation of the GB gas market and for this reason the residual balancer is restricted to short term actions on the OCM, in accordance with UNC TPD Section D. However, the potential requirement for the residual balancer to take large actions in the OCM could result in National Grid NTS becoming a significant counterparty to a large proportion of trades on the day and therefore experience challenges with liquidity as well as impacting the market. This in turn would likely generate cash out prices which are higher than would otherwise be the case and which are not reflective of the underlying supply-demand balance, resulting in increased system prices and therefore costs for all Users, as well as a material cashflow impact for National Grid NTS given the time-lag between OCM trade settlement and recovery through balancing neutrality.

## How

It is proposed that the UNC is modified to create a new role for National Grid NTS, separate to its role as residual balancer, under which it would be obliged to procure gas to meet the forecast demand of Terminated Supply Meter Points that are temporarily without a Registered User (i.e. a Shipper) in the circumstances detailed above. The target quantity of gas to be procured for each Day in the period for which the arrangements apply would be the aggregate forecast demand of the Terminated Supply Meter Points, net of any trades enacted against the terminated shipper's imbalance account provided for under Modification 0788 'Minimising the Market Impacts of Supplier Undertaking Operation'.

In this role, National Grid NTS would be limited to gas purchases at the National Balancing Point (NBP) but would be permitted to trade using NBP market venues other than the OCM to fulfil the requirement and be eligible to buy gas on a forward basis with the final target volume informed by the demand attribution that operates at the day ahead and within day stage. Any transactions via the new mechanism will not be Eligible Balancing Actions and therefore will not set System Marginal Prices as they would be undertaken independently from any actions National Grid NTS deems necessary in its role as residual balancer. National Grid NTS would have the ability to sell gas from the day-ahead stage in the event it had overbought, but in aggregate would always be in a buying position; therefore, to manage its cashflow risk, it is proposed that its trading costs in this role are recovered via Balancing Neutrality Charges on an accelerated timescale and to include a secondary process to ensure parties receive their appropriate share based on the correct trading period data.

National Grid NTS believes this solution is appropriate and justifiable because:

- Procurement of additional supplies by National Grid NTS in this role will have a lesser impact on the System Average Price and will not set the SMP Buy price, thereby not impacting the price paid by Suppliers operating under the deed of undertaking or Shippers' imbalance charges and minimising any increase to system prices, compared to actions taken by National Grid NTS in its residual balancing role; and
- The residual balancer role was envisaged to address a net volume of 'fine-tuning' imbalance as a consequence of Shippers making reasonable efforts to individually maintain a balance, and was not envisaged to procure additional gas to meet the supply requirements of Suppliers who are temporarily without a Shipper and who do not have the commercial capability to deliver gas to the Total System.
- National Grid NTS is already eligible to procure gas for purposes other than residual balancing to meet its Shrinkage and Operating Margins requirements on markets other than the OCM as set out in its Procurement Guidelines, Part C and System Management Principles Statement, Part C. It would not be acting as a Shipper in this role because no arrangement would be made with a Supplier for volumes to be sold at the point of exit from the system.

## 2 Governance

### Justification for Urgency

Ofgem's open letter dated 17 February 2016 specifies guidance for the circumstances under which a Modification Proposal would be considered for Urgent procedures. This specifies that an urgent Modification should be linked to an imminent or current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholders, a significant impact on the

safety and security of the electricity and/or gas systems, or cause a party to be in breach of any relevant legal requirements.

The market is currently experiencing a heightened risk of Shipper Users ceasing to trade and being terminated from the UNC. In this scenario, if the associated Supplier(s) elects to operate under their 'deed of undertaking' then there would be no User delivering gas to the system to meet the demand of the Terminated Supply Meter Points, thereby generating a national supply / demand imbalance, assuming all other Users were balanced. In its role as residual balancer, National Grid NTS only has access to the On the Day Commodity Market (OCM) to procure this gas which, alone, is unlikely to be the most economic and efficient means of procuring such gas and could result in higher system prices for all Users and which do not reflect supply/demand fundamentals.

The implementation of Modification 0788 is expected to mitigate this impact to some extent but given that this is a voluntary option for Suppliers, it is the Proposer's view that without the implementation of this new Proposal, there remains a risk of a commercial impact on Users if this issue is not addressed urgently. Without this Proposal, the potential requirement for the residual balancer to take large actions in the OCM could result in National Grid NTS becoming a counterparty to a large proportion of trades on the day and therefore National Grid NTS could experience challenges with liquidity and this may increase its impact on the market. The Proposer has completed analysis detailed in this Proposal based upon a large supply portfolio and shows that the balancing neutrality account deficit could reach £854m. This would represent an unsustainable cashflow risk for National Grid NTS and which would subsequently be recoverable from Suppliers under their deed of undertaking and/or Shipper Users in the event of default by those Suppliers. This Proposal offers a means of reducing this risk, though not eliminating it.

If this Modification is not progressed under Urgent procedures, the Proposer's expectation is that, if approved, it would be unlikely to be capable of implementation during this winter 2021/22, where the greatest period of risk for the industry, and therefore exposure, is likely to occur.

### Requested Next Steps

This Modification should:

- be treated as Urgent; and
- proceed as such under a timetable agreed with the Authority.

## 3 Why Change?

### Background

In the event of the Termination of a Shipper User, any Suppliers utilising the services of that Shipper User are notified of such Termination. In these circumstances, Supplier Licence Condition 18.4 requires Suppliers to "take all reasonable steps" to appoint a replacement Shipper User for its customers within 25 working days of receiving notice of the Termination of the Shipper User.

If such a Supplier does not immediately appoint a replacement Shipper User for the consumers it supplies, under the terms of Supplier Licence Condition 18.1 it is required to:

- provide the appropriate security to the Transporter; and
- pay the Transporter all relevant charges for gas taken out of its pipeline system from the date the Termination of the Shipper User takes effect.

The above referenced Supplier agreement to provide security and make payments to the Transporter is known as the 'deed of undertaking' and under the terms of Supplier Licence Condition 18.2, all Suppliers are required to provide such an undertaking to the Relevant Gas Transporters (i.e. to those networks utilised to convey gas to the relevant consumers).

The current terms of the deed of undertaking (including those made to National Grid NTS) set out that in respect of Energy Balancing Charges, the relevant Supplier pay such charges as if the Shipper concerned (i.e., the Shipper User now Terminated) had "*not at any time during the relevant period introduced or arranged to introduce any gas into National Grid NTS's pipeline system*". Accordingly, the Supplier is assumed to have delivered no (i.e. zero) gas to the system to balance the demand of the consumers it supplies.

As a consequence, the relevant Supplier is required to pay a 'cash out' charge at the System Marginal Price (SMP) (buy) (i.e. at a rate higher than the System Average Price) in respect of the volume of demand of the consumers it supplies. In practice, under current arrangements, and assuming all other Shipper Users in the market match their supply and demand, responsibility for securing the delivery of the gas to the Total System (for the required volumes) falls on National Grid NTS, in its role as residual balancer for the Total System. This will also increase system prices generally and, in particular, the imbalance costs for Shippers who are short, as they will be charged based on the SMP (buy) price. The implementation of Modification 0788 should help to mitigate this, by enabling a Supplier to contract with another Shipper for volumes to be delivered and accounted for against the terminated Shippers' portfolio, however this is a voluntary arrangement that the Proposer considers should be supplemented by this Proposal.

As the residual balancer, National Grid NTS is required to make payment for any such OCM gas purchases on approximately day D+2 following a trade conducted on day D. However, the consequential Energy Balancing Charges which are levied to the relevant Supplier, pursuant to its undertaking (one of the purposes of which is to recompense National Grid NTS for the costs it incurred in taking that Residual Balancing action) would not be recovered by National Grid NTS until up to two and a half months following the day the action was taken. This is because entry allocations close out at M+15, hence Energy Balancing Charges are invoiced at the start of the second month following the month in which the balancing trades were executed, with payment being due later in that month.

Under normal circumstances, this time lag is acceptable because system buy actions and system sell actions usually net off to an extent, as Shippers in aggregate balance their portfolios and the residual balancer focuses on fine tuning / incentivising and therefore the funding of the balancing neutrality account is manageable. However, if National Grid NTS is required to cover the procurement of gas for a failed shipper then, all other things being equal, it will constantly be on the buy side of the market and because of the time lag between cost incurred and cost recovery, (e.g. for trades enacted in October recovery from neutrality would not occur until mid-December) the neutrality account could incur potentially unsustainable debt.

On 19 October 2021, National Grid NTS raised Modification Proposal 0789 to address this situation, which sought to uplift the demand of all other Shipper Users by the forecast offtake demand of any relevant Suppliers operating under the deed of undertaking, in proportion to their market share.

Modification 0789, and a draft alternative proposal which proposed to place the gas procurement responsibility with National Grid NTS using a wider range of tools than purely the OCM, were progressed via National Grid-led workshops held between 5<sup>th</sup> and 11<sup>th</sup> November 2021 (as directed by Ofgem, in its letter dated 27 October 2021, available here: <https://www.gasgovernance.co.uk/0789>).

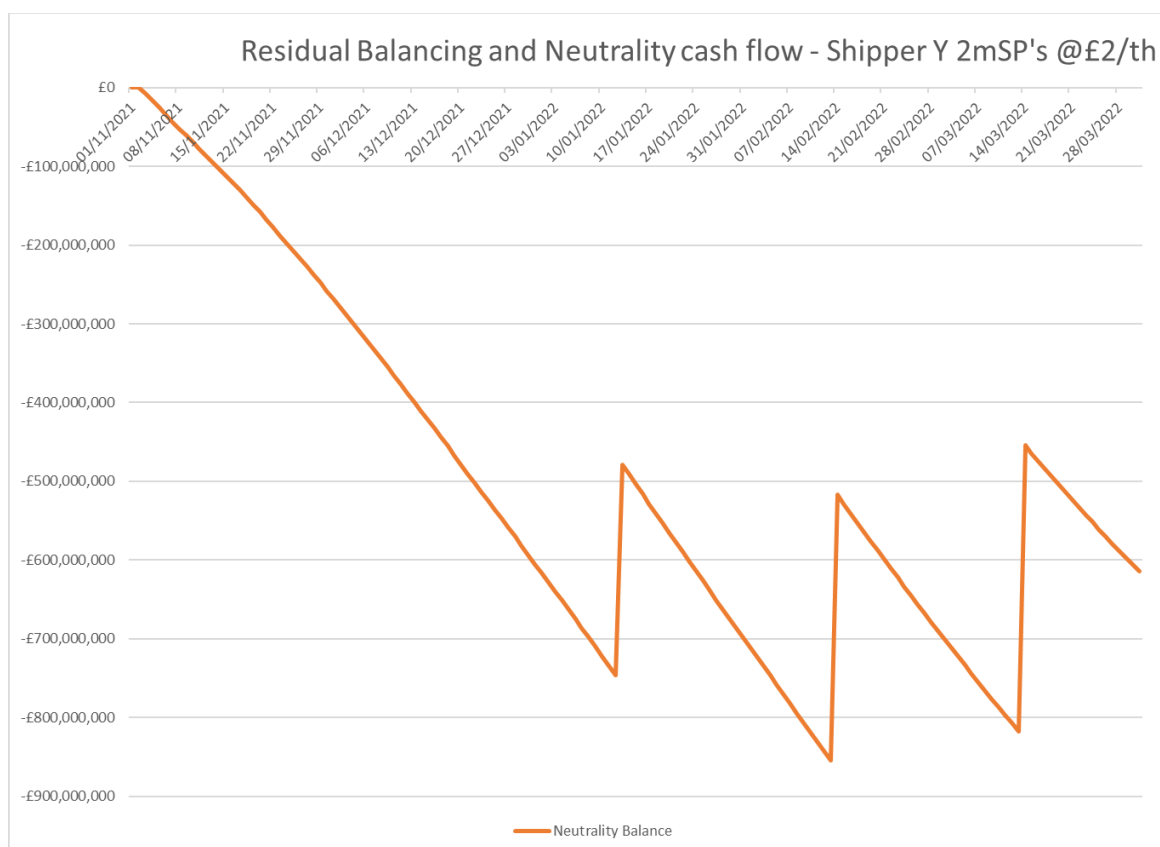
During those National Grid NTS workshop discussions, National Grid NTS heard concerns expressed that many shipping businesses are not set up to procure gas on a prompt basis, contracts are structured to provide for their own portfolios and not beyond that. In addition, the 0789 Modification Proposal was viewed as inequitable because Shipper Users would face different costs in either procuring the gas or taking the SMP Buy cashout. The output of those discussions resulted in the withdrawal of Modification 0789 on 17 November 2021 and have informed the solution presented within this new Proposal.

The root cause of this issue is that immediate continuity in shipping arrangements following a shipper ceasing to trade is not always possible to achieve. We therefore regard this new Proposal as a pragmatic solution that manages the potential market effects of a Shipper ceasing to trade, until a fuller review of regulatory arrangements can be completed and an enduring solution established, which we would like to see concluded prior to Winter 2022.

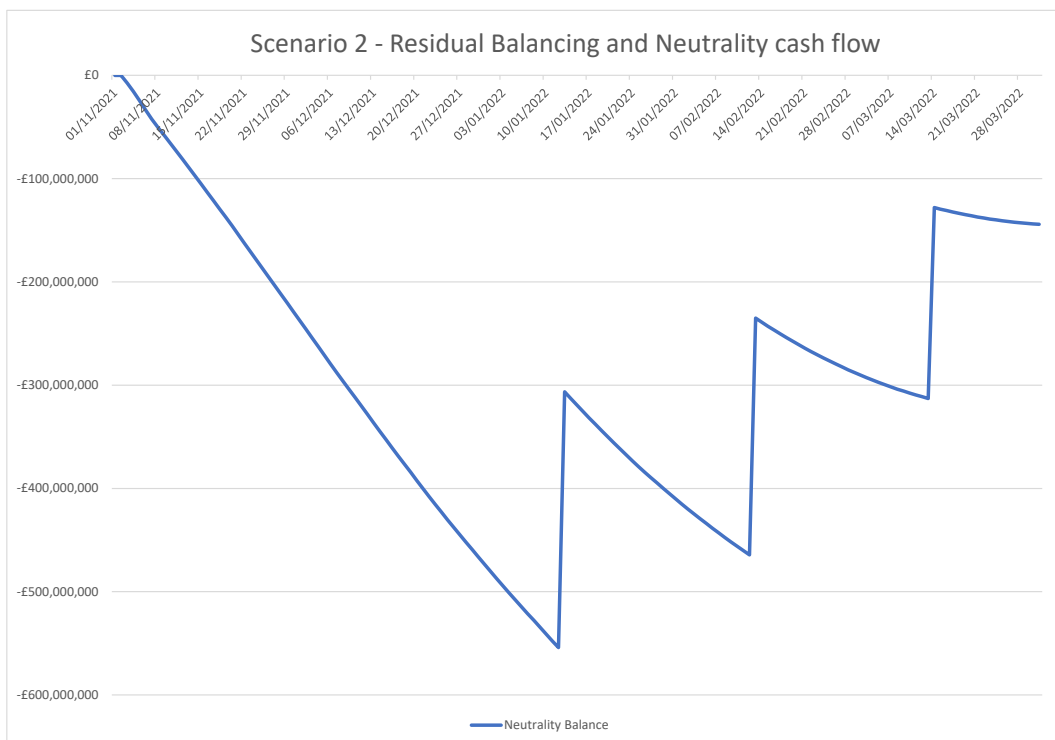
## Potential Materiality

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.

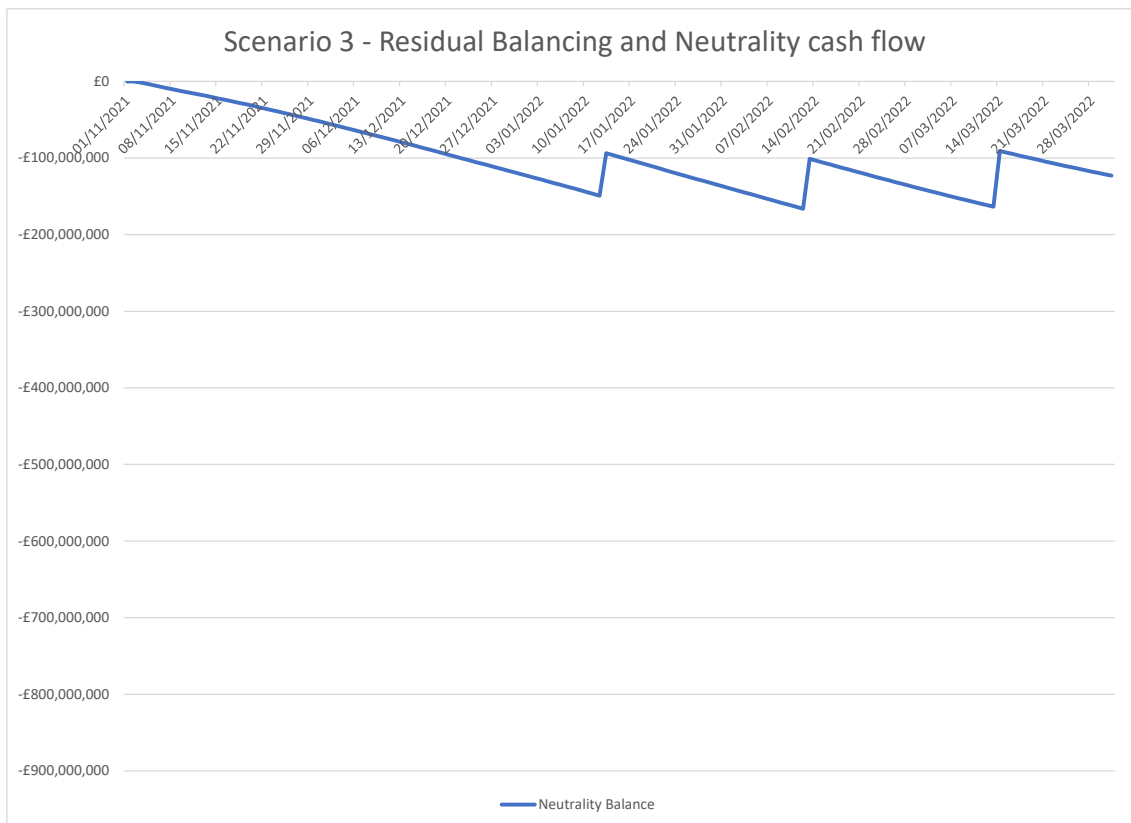
- 1) Assuming no migration of supply points from the failed shipper, peak neutrality exposure of ~£854m



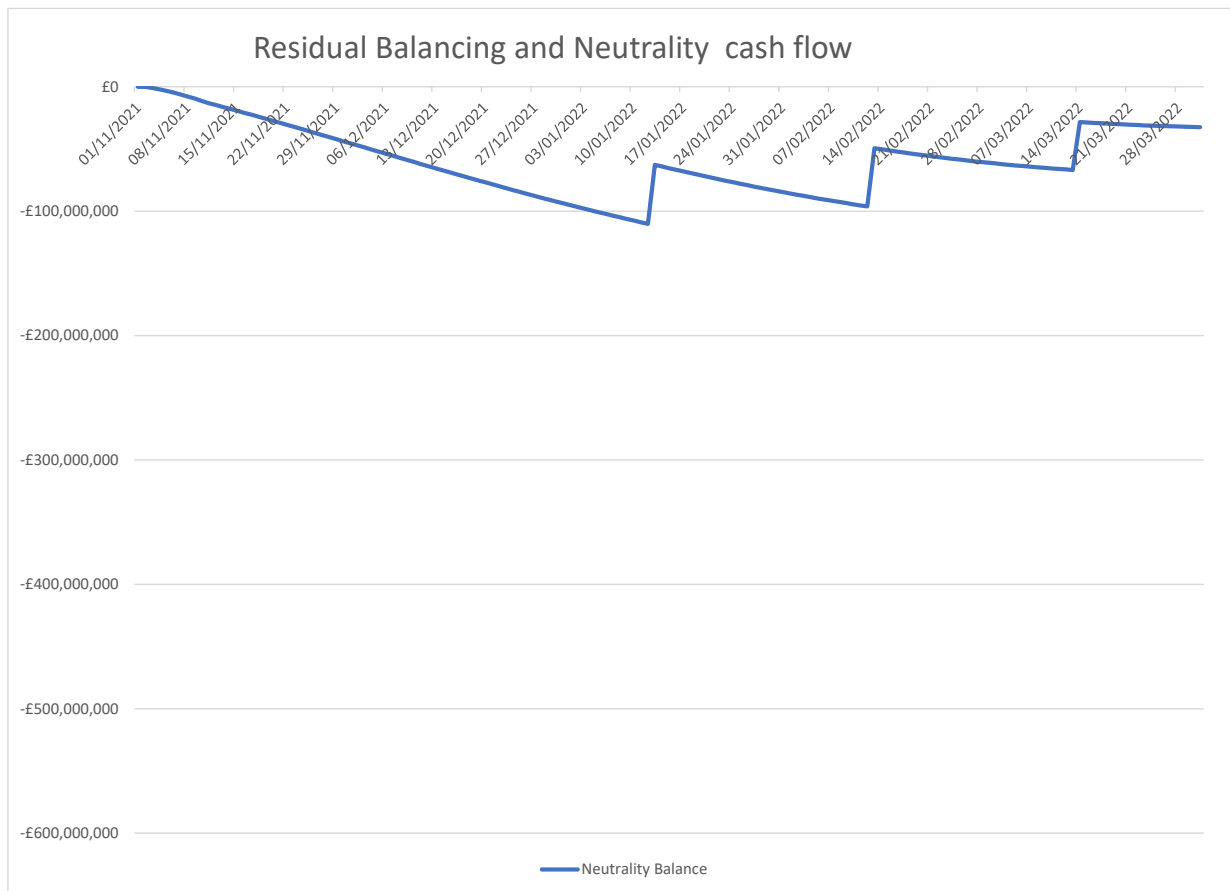
- 2) Assuming a steady migration of supply points to other shippers (peak neutrality exposure of ~£554m)



- 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'<sup>1</sup> 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

<sup>1</sup> <https://www.gov.uk/government/publications/bulb-energy-limited-consent-to-apply-for-a-special-administration-regime>

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

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

Gas Supplier Licence in the Ofgem [e-public register](#)

[TPD V4: Discontinuing Users and Termination](#)

[TPD E5: Imbalance](#)

[National Grid Workshops held on Modification 0789 – Energy Balancing Arrangement during the operation of Supplier Undertaking to Transporters : \[www.gasgovernance.co.uk/0789\]\(http://www.gasgovernance.co.uk/0789\)](#)

### Knowledge/Skills

Knowledge of

- Shipper User Termination scenarios and process; and
- User imbalance calculations
- Settlement of gas trades

would be beneficial.

## 5 Solution

This Proposal would create a new role within UNC TPD Section D for National Grid NTS of the **“Contingency Procurer of Supplier Demand” (CPoSD)**. The creation of this role would have the effect of transferring the responsibility for delivering additional supplies to the Total System in these specific circumstances from National Grid NTS in its role as residual balancer to National Grid NTS in its new role.

Before the day ahead stage, the volume of additional gas supplies required will be determined by subtracting the expected volume of trades under Modification 0788 based upon those Suppliers who have notified the CDSP of a shipping relationship, from the seasonal normal demand profile of the Terminated

Supply Meter Points, whilst also taking into account the expected rate of meter point transfers away from the terminated shipper. From 13:00 day-ahead to 13:00 within day, the volume requirement will be determined based on the NDM demand attribution process in respect of the Terminated Supply Meter Points plus any relevant DM demand from 13:00 day ahead to 13:00 within day, less any trades made pursuant to Modification 0788.

In order to enact the role of CPoSD, a new User account within Gemini will be created whereby all transactions relevant to this role will be accounted for. The CPoSD's imbalance position will always be 'over-delivered' when the role is active (as there is no demand portfolio attributable to it) at the end of the Gas Day, and therefore its account will be excluded from Balancing Charges and Balancing Neutrality Charges.

The Energy Balancing Charges payable by the Supplier pursuant to the deed of undertaking, result in the Supplier paying for all its consumers' gas demand at the SMP Buy price and this cost will feed into Balancing Neutrality. Also, the basis of cost recovery from Shipper Users will be consistent with that employed for Balancing Neutrality, therefore Balancing Neutrality will be used to fund the settlement and costs associated with the trading activity carried out by the CPoSD. To minimise the risk of the Balancing Neutrality bank account having insufficient funds to enable settlement of the gas purchases carried out by the CPoSD and/or residual balancing transactions, an accelerated cost recovery process will be implemented for trades associated with the CPoSD, compared to that which applies for trades associated with residual balancing actions.

## Proposed Processes

### A) Event Trigger

It is proposed that the arrangements set out in this solution take effect:

- from the date a Termination Notice issued to a Shipper User (the 'terminated Shipper') by a Transporter under TPD Section V4.3.3, or TPD Section X, takes effect; and
- where no new Registered User is in place (or appointed) for one or more of the relevant Supply Points and therefore there are Terminated Supply Meter Points as defined in UNC TPD G4.2.2; and
- The CDSP has notified National Grid NTS that a Supplier is acting in accordance with its deed of undertaking in respect of the relevant Supply Points.

The term '*relevant Supply Points*' means those Supply Points (and CSEP Supply Points) where the terminated Shipper was the Registered User prior to the date the User Termination took effect.

### B) Role Description and Commencement/Cessation Criteria

It is proposed that where the Event Trigger criteria (set out above) are met, National Grid NTS shall undertake the role of **Contingency Procurer of Supplier Demand** ('CPoSD') for each day (a 'relevant day') within a period that:

- commences on the first Day where the volume of additional gas to be procured by the CPoSD for that day, to fulfil the role set out above, after accounting for any expected trade volumes pursuant to Modification 0788, is 10,000,000 kWh\* or greater; and

- ceases on the first subsequent Day where the volume of additional gas to be procured by the CPoSD for that day, to fulfil the role set out above, after accounting for any expected trade volumes pursuant to Modification 0788, is less than 100,000 kWh\*\*.

\* 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.

\*\* A minimum volume of 100,000 kWh is proposed because this is approximately the minimum trade quantity available on the OCM.

The CPoSD's role is to procure gas at the NBP for each relevant day, equal in aggregate (and so far as it is practicable to do so based on the tranche size of volumes available in the market) to satisfy the forecast demand from the relevant Supply Points, the 'Forecast Requirement'. Up until day-ahead, the Forecast Requirement shall be determined based on:

- the seasonal normal demand of the Terminated Supply Meter Points that are non-daily metered (NDM)
- the relevant Annual Quantity divided by 365 for any Terminated Supply Meter Points that are connected to a Distribution Network and are daily metered (DM),
- any volumes expected to be covered by Modification 0788 arrangements
- the forecast meter point transfers away from the terminated Shipper to a new Registered User as notified to National Grid NTS by the CDSP.

During this period the CPoSD shall endeavour to procure ahead of the day before the Gas Day for not more than 80% and not less than 30% of the Forecast Requirement from front month and within month contracts available to the CPoSD.

The process before D-1 and the calculation of the forecasted volume requirement may therefore be summarised as:

- i) Shipper is terminated from the UNC and associated Supplier(s) operates under the 'deed of undertaking'
- ii) CDSP notifies National Grid NTS of the aggregate seasonal normal demand for the NDM Terminated Supply Meter Points (This is volume V1)
- iii) National Grid NTS determines the demand for any DN connected DM Terminated Supply Meter Points based on applicable AQ / 365 (This is volume V2)
- iv) CDSP notifies National Grid NTS of any Terminated Supply Meter Points in respect of which arrangements have been made between a Supplier and another Shipper pursuant to Modification 0788 for which National Grid NTS shall estimate a volume (This is volume V3)
- v) CDSP provides a forecast to National Grid NTS of the numbers of Terminated Supply Meter Points that are expected to be transferred to other Shippers. National Grid NTS shall then estimate the volume requirement reduction as a consequence of this activity. (This is volume V4)
- vi) Forecast Requirement for day D =  $V1 + V2 - V3 - V4$ .

If any of the Terminated Supply Meter Points are connected to the NTS, National Grid NTS would also account for a level of demand based on historical data and any other relevant site data.

From the day ahead stage, the volume requirement shall be determined based on NDM demand attribution processes commencing at 13:00 on D-1 up until 13:00 on D for the relevant Terminated Supply Meter Points plus the demand of any daily metered (DM) sites within the Discontinuing User's portfolio equal to either the Nomination that prevailed at D-7 or otherwise the AQ/365, less any volumes expected to be covered by Modification 0788 arrangements. If any of the Terminated Supply Meter Points are connected to the NTS, National Grid NTS would also include a level of demand based on historical data and any other relevant site data.

Further gas purchases shall then be made on day ahead and within day markets to satisfy the forecast demand as far as is reasonably practicable, given the tranche sizes for volumes available to be procured in the market venues available to National Grid NTS in the role of CPoSD. Procurement requirements for non-working days shall be determined as the D-1 determination from the most recent working day. (i.e. for a Sunday the Friday forecast for Saturday would be used).

For the avoidance of doubt, where the Event Trigger criteria has ceased (on the basis of the above), any consequential impact on the Operational Balance of the Total System will be addressed (if necessary) by National Grid NTS in its existing, separate, residual balancing role.

### C) Procurement Method

The CPoSD shall be permitted to procure NBP gas from the following sources to fulfil the gas procurement requirement for a day:

- i) On the Day Commodity Market (OCM);
- ii) Over the Counter (OTC) trading;
- iii) Other gas exchanges.

The cost recovery timescales proposed in section E below shall apply irrespective of which market the gas is procured on. If the CPoSD has procured a volume of gas that exceeds its daily requirement, it shall be permitted to sell that gas back to the market from the day ahead stage.

### D) Daily Imbalance charges

In this role, National Grid NTS would always be a net buyer of gas, therefore the CPoSD account will be exempt from Balancing Charges and will also be excluded from any Balancing Neutrality Charges but the costs of buying the gas for the CPoSD role will be passed through the balancing neutrality account as described in section E below.

### E) Recovery of Costs Incurred by the CPoSD

It is proposed that:

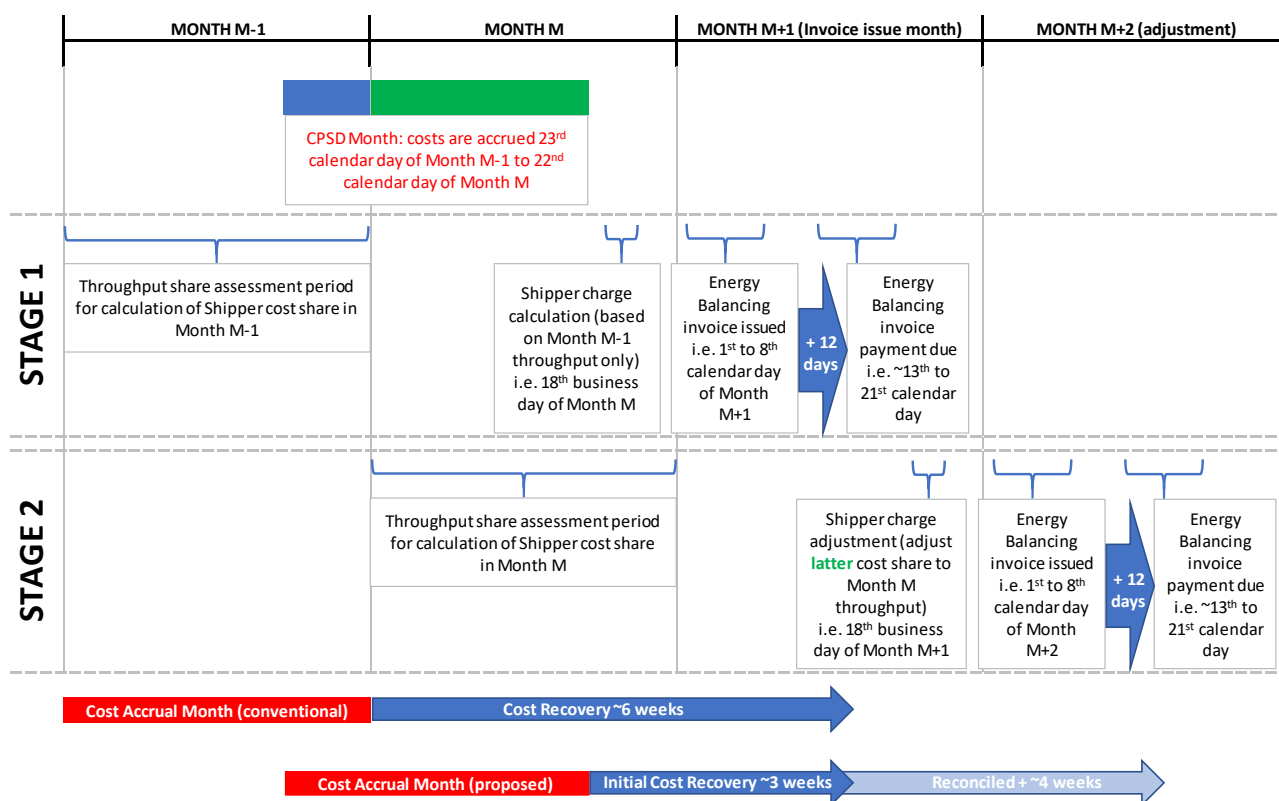
- The gas procurement costs, defined as amounts payable in respect of trades for the procurement of gas net of any amounts receivable from any sales of gas on Days in the CPoSD month in undertaking its role (over the course of a monthly period – the '**CPoSD Month**') will be recovered from Users via Balancing Neutrality Charges based on the prevailing throughput share applicable to each user for that Energy Balancing Invoice;

- The CPoSD Month commences on the 23<sup>rd</sup> calendar day of a month (falling in calendar month M-1) and ends at the conclusion of the 22<sup>nd</sup> calendar day of the following month (falling in calendar month M);
- Net amounts payable by the CPoSD in respect of trades for Gas Days in the CPoSD month shall be recovered via Balancing Neutrality Charges on the Energy Balancing invoices issued in the first month subsequent to the end of the CPoSD Month (i.e. issued within calendar month M+1), with the apportionment of costs based on Users' UDQIs and UDQOs in the calendar month coinciding with the start of the CPoSD month (i.e. calendar month M-1);
- A subsequent Energy Balancing Invoice will include an adjustment to reflect the apportionment of gas procurement costs incurred by the CPoSD in the latter proportion of the CPoSD month (falling within calendar month M) on the basis of Users UDQIs and UDQOs in the calendar month coinciding with the end of the CPoSD month (i.e. calendar month M). This shall be issued on a monthly basis in the second month subsequent to the end of the CPoSD Month (i.e. issued within calendar month M+2).

The following diagram illustrates the operation of the accelerated cost recovery mechanism which in essence takes the form of a monthly cost accrual period (the 'CPoSD Month') which concludes as close as is practicable to the point of Balancing Neutrality Charge calculation (this charge being the mechanism by which the relevant costs are recovered). In summary, this would achieve the recovery of costs within circa 3 weeks of the end of the CPoSD month, compared with circa 6 weeks if the CPoSD Month was alternatively aligned to a calendar month (Month M-1 in the illustration below).

The illustration reflects a two-stage invoicing process necessitated as a consequence of the unavailability of finalised Entry and Exit gas allocations for allocation of costs accrued in that same month (i.e. gas allocations in Month M to facilitate apportionment of costs incurred in the period shown by the green bar). Thus:

- Stage 1 apportions all costs incurred in the CPoSD month on the basis of Shipper throughput (Entry and Exit Gas Allocations) in Month M-1; and
- Stage 2 effects an adjustment for each relevant Shipper to reflect apportionment of the costs accrued in the period shown by the green bar on the basis of Shipper throughput (Entry and Exit Gas Allocations) in Month M.



## F) Information Provision

National Grid NTS shall be obliged to notify all Users as soon as reasonably practicable when the CPoSD role requirement has been triggered and when it has ceased. National Grid NTS shall be obliged to conduct its gas procurement activity (and, if appropriate, disposal activity) within the boundaries specified in this Modification Proposal in a manner that it determines to be economic and efficient but shall not be obliged to publish the volumes or prices at which it has bought (or as the case may be, sold) gas.

## 6 Impacts & Other Considerations

### Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

### Consumer Impacts

Under existing arrangements, the costs of residual balancing actions are socialised across all Shipper Users. The proposed approach would avoid additional gas procurement activity being undertaken by National Grid NTS in its residual balancing role for Terminated Supply Meter Points, with such gas being procured via a wider range of tools and timescales which 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
<p>Lower bills than would otherwise be the case</p> <p>This Modification is expected to enable National Grid NTS 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 impacts on the market.</p>	Positive
Reduced environmental damage	None
Improved quality of service	None
<p>Benefits for society as a whole</p> <p>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 reduce the risk of further financial challenges for market participants and thereby minimise disruption for consumers.</p>	Positive

## Cross-Code Impacts

None

## EU Code Impacts

### **EU Network Code on Gas Balancing of Transmission Networks**

This EU Network Code <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0312> applies in GB as retained law, as amended pursuant to the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations 2019 [The Gas \(Security of Supply and Network Codes\) \(Amendment\) \(EU Exit\) Regulations 2019 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukmg/2019/1200/contents) and sets out certain provisions in relation to the balancing of gas networks that National Grid as the GB TSO is required to comply with. An assessment is required in relation to whether the gas procurement role envisaged to be undertaken by National Grid NTS under this Modification Proposal would be compliant with its obligations under this EU Network Code.

It is the view of the Proposer that the procurement of gas to fulfil a temporary function of meeting the demand of a group of supply points that are for the time being without a Registered User would constitute a role that is fundamentally different to that of buying and selling gas to balance the network in

circumstances where in its judgement, shippers are not sufficiently balancing their own portfolios. The balancing regime provides incentives for shippers to balance their own portfolios; however in the case of a Supplier operating under a deed of undertaking there is no such party to incentivise, therefore it is the view of the Proposer that the proposed procurement activity should be separate to the residual balancing function in order to prevent any distortions arising. Thus, the restrictions in relation to balancing activities that apply in the Balancing Code, for example the obligation to trade on a platform for gas delivery within day or day ahead, do not apply to the proposed procurement role. In particular, we note that:

- There is nothing in the EU Balancing Code that explicitly prevents a TSO from undertaking the proposed procurement role;
- There is a recognition that TSOs may procure gas for purposes other than balancing that are outside of its scope; shrinkage being identified as one such example in the definition of 'balancing action' in Article 3(2);
- The requirement for a balancing neutrality mechanism is prescribed in Article 29 as the means by which a TSO remains cash-neutral to the costs and revenues arising from its balancing actions but there is nothing to preclude other cash flows from being included provided they can be separately identified.

### Central Systems Impacts

No systems changes are required to implement this Modification; however, new processes would be required within National Grid NTS to set up the trading function to support the CPoSD and by the CDSP to enable the balancing neutrality reconciliation. The CDSP has indicated the development of an automated offline tool to perform the balancing neutrality reconciliation would take 9 weeks to implement at cost of between £9,000 and £18,000. National Grid NTS would fund these costs from its Gemini change allowance. Some additional effort is expected to be required by the CDSP to ensure it is able to supply the information to National Grid NTS set out in the Solution for it to estimate the gas procurement requirement.

## 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: (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.	Positive
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 Terminated Supply Meter Points as a result of 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 National Grid NTS to purchase NBP gas for this purpose through additional means to the OCM with a forward trading capability will better facilitate National Grid NTS' obligation to perform its functions in an efficient, economic and co-ordinated manner.

#### d) Securing of effective competition between relevant Shippers;

By transacting 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. The proposed means of cost recovery means that shippers would be exposed to the associated costs based on their market share, consistent with established balancing neutrality principles, which enable effective competition. The impact on Shippers is mitigated to the extent that suppliers pay for their supplies under the Deed of Undertaking,

## 8 Implementation

Implementation is sought as soon as practicable given the current unprecedented challenges being experienced and demonstrated by the scale of parties exiting the gas shipping and gas supply markets and the highlighted potential impact of this on the industry and National Grid NTS as the residual balancer.

Whilst no systems changes are envisaged to implement this Modification, new processes would be required within National Grid NTS to set up the trading function to enable operation of the CPoSD and within Xoserve to enable the balancing neutrality reconciliation. The CDSP has indicated that the development of an automated offline tool to perform the balancing neutrality reconciliation would take 9 weeks to implement at cost of between £9,000 and £18,000. National Grid NTS would fund these costs from its Gemini change allowance. Some additional effort is expected to be required by the CDSP to ensure it is able to supply the information to National Grid NTS set out in the Solution for it to estimate the gas procurement requirement.

## 9 Legal Text

### Text Commentary

Reference	Explanation
<b>TRANSPORTATION PRINCIPAL DOCUMENT</b>	-
<b>SECTION D – OPERATIONAL BALANCING AND TRADING ARRANGEMENTS</b>	-
New paragraph 6 - Heading	<b>CONTINGENT PROCUREMENT OF SUPPLIER DEMAND</b>
New paragraph 6.1 - Heading	<b>General</b>
New paragraph 6.1.1	To establish that the application of new paragraph 6 and the purchase of gas by National Grid NTS is contingent on there being Relevant TSMPs as defined.

New paragraph 6.1.2	<p>In relation to a Day (D) a Relevant TSMP is a Supply Meter Point where:</p> <ul style="list-style-type: none"> <li>- the Registered User has been terminated from Code, so is a Discontinuing User, and the User Discontinuance Date is on or before Day D;</li> <li>- a binding DOU is in place with the relevant supplier supplying the relevant premises;</li> <li>- the Transporter has notified the supplier in accordance with the DOU; and</li> <li>- no new Registered User is in place on Day D.</li> </ul>
New paragraph 6.1.3	<p>Where there are Relevant TSMPs (and therefore paragraph 6 applies) National Grid will purchase gas to cover the gas which it is estimated will be offtaken at the Relevant TSMP on the Day. This purchase is subject to the further rules in new paragraph 6.</p>
New paragraph 6.1.4	<p>This makes clear the purchase of gas for the purposes of new paragraph 6 does not count as an Operational Balancing Step or Eligible Balancing Action for the purposes of the earlier rules in Section D.</p>
New paragraph 6.1.5	<p>However when National Grid NTS is undertaking Operational Balancing it will take into account the quantities of gas to be delivered to the Total System on a Day which it has purchased for the purposes of paragraph 6.</p>
New paragraph 6.1.6	<p>This makes clear National Grid NTS' purchase of gas is not treated as falling under one of National Grid NTS' User capacities; and so it will not be treated as a User, and further no Balancing Charges or Balancing Neutrality Charges shall apply in relation to the quantities of gas purchased or subsequently sold.</p>
New paragraph 6.1.7	<p>National Grid NTS will only take steps to purchase gas for paragraph 6 purposes on Business Days (so not at weekends or on bank holidays).</p>

New paragraph 6.2 - Heading	<b>Estimation of demand</b>
New paragraph 6.2.1	Sets out the requirement that National Grid NTS will estimate for each Day in the Estimation Period (as defined in new paragraph 6.2.2) the number of Relevant TSMPs, the expected demand at Relevant TSMPs (defined as the Estimated Daily TSMP Quantity) and whether or not the Day will be a Relevant Day (as defined in new paragraph 6.2.3).
New paragraph 6.2.2	The Estimation Period runs from the Day on which National Grid NTS makes its estimate until the last day of the next following month.
New paragraph 6.2.3	A Relevant Day is a Day in a period (of consecutive days) from the first Day on which National Grid NTS estimates the demand at Relevant TSMPs will exceed 10,000,000 kWh until the day on which it estimates the demand will be less than 100,000 kWh. This period is defined as the TDP Period.
New paragraph 6.2.4	National Grid NTS is required to notify Users of the duration of the TDP Period.
New paragraph 6.2.5	When estimating the Estimated Daily TSMP Quantity National Grid NTS must take into account (1) whether or not a VLR User will be making any Disposing Trade Nomination (under TPD Section E10), (2) whether Supply Meter Points will remain Relevant TSMPs, (3) for NDM sites, the seasonal normal demand at Relevant TSMPs and the prevailing NDM Supply Meter Point Demand, (4) for LDZ DM sites the D-7 output nomination or the AQ/365 and (5) for NTS sites historic / other relevant offtake data.
New paragraph 6.2.6	To make clear that for non-Business Days National Grid NTS will base the Estimated Daily TMPS Quantity on the quantity last estimated for a Business Day.
New paragraph 6.3 - Heading	<b>Purchase of gas</b>
New paragraph 6.3.1	The purchase of gas by National Grid NTS for a Day will be by way of an Acquiring Trade

	Nomination, for a quantity as near as possible to the Estimated Daily TSMP Quantity of the day.
New paragraph 6.3.2	National Grid NTS may sell gas purchased for a Day where the gas previously purchased is greater than the prevailing Estimated Daily TSMP Quantity (and it will do so by a Disposing Trade Nomination).
New paragraph 6.3.3	National Grid NTS can effect purchases through any available trading platform.
New paragraph 6.3.4	And when purchasing gas under paragraph 6 National Grid NTS will aim to do so on an economic basis.
New paragraph 6.4 - Heading	<b>TSMP Procurement Amounts</b>
New paragraph 6.4.1	The net cost of gas purchases under paragraph 6 are defined as TDP Amounts (for the purposes of the neutrality rules in TPD Section F4).
<b>SECTION F – SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY</b>	-
New paragraph 4.5.7	Confirms that TDP Amounts are to be treated for neutrality purposes as Monthly Adjustment Neutrality Costs; and that the related Monthly Neutrality Adjustment Amount for a month is the aggregate of (1) the TPD Amounts for the month from day 23 to the end of the month, (2) the TPD Amounts for day 1 to 22 of the following month and (3) a reconciliation amount calculated as the difference between the amount in (2) for the month and the costs included as the Monthly Neutrality Amount for the same period in the preceding month.

## Text

### MODIFICATION 0791

#### CONTINGENCY GAS PROCUREMENT ARRANGEMENTS WHEN A SUPPLIER ACTS UNDER A DEED OF UNDERTAKING

#### TRANSPORTATION PRINCIPAL DOCUMENT

#### SECTION D – OPERATIONAL BALANCING AND TRADING ARRANGEMENTS

*Add new paragraph 6 to read as follows:*

## **6 CONTINGENT PROCUREMENT OF SUPPLIER DEMAND**

### **6.1 General**

6.1.1 This paragraph 6 applies where there is, or National Grid NTS expects that there will be, one or more Relevant TSMPs.

6.1.2 A "**Relevant TSMP**" is Supply Meter Point for which, in respect of a Day (D), the following conditions are satisfied:

- (a) the Registered User is a Discontinuing User pursuant to a Termination Notice under which the User Discontinuance Date is on or before that Day (and accordingly the Supply Meter Point is a Terminated Supply Meter Point);
- (b) a binding undertaking has been given, by the supplier (including a Supplier of Last Resort) of the Supply Point Premises, to the Transporter pursuant to Standard Condition 18 of the Supplier Licence;
- (c) pursuant to that undertaking, before the User Discontinuance Date, the Transporter gave notice (of the end of the arrangements under the Code between the Transporter and the Discontinuing User, as contemplated by Standard Condition 18.1(c)) to the supplier; and
- (d) no other User has become Registered User of the Supply Meter Point.

6.1.3 Where this paragraph 6 applies, National Grid NTS will purchase gas (in accordance with paragraph 6.3) in respect of the estimated quantity of gas to be offtaken at the Relevant TSMP on Day D, subject to and in accordance with the further provisions of this paragraph 6.

6.1.4 The role of National Grid NTS in purchasing or selling gas under this paragraph 6 is separate from its role in Operational Balancing, and accordingly:

- (a) the actions taken by National Grid NTS to purchase or sell such gas are not Operational Balancing Steps;
- (b) such actions are not Eligible Balancing Actions and accordingly their prices are not taken into account in determining the System Marginal Buy Price, the System Marginal Sell Price or the System Average Price;
- (c) nothing in paragraph 1 applies in respect of such actions taken by National Grid NTS.

6.1.5 In paragraph 1.1.1, references to quantities of gas delivered to the Total System include quantities which are expected to be delivered by a User from whom National Grid NTS purchases gas for the purposes of paragraph 6.1.3.

6.1.6 National Grid NTS is not treated as acting as User for the purposes of Section V7 in purchasing or selling gas under this paragraph 6; and no Balancing Charges or Balancing Neutrality Charges are determined or payable in respect of the quantities of gas purchased or sold.

6.1.7 National Grid NTS will take steps (including estimating demand at Relevant TSMPs and purchasing or selling gas) under this paragraph 6 on Business Days only.

## **6.2 Estimation of demand**

6.2.1 Where this paragraph 6 applies, National Grid NTS will from time to time, for each Day in the Estimation Period, estimate:

- (a) which Supply Meter Points are or will be Relevant TSMPs;
- (b) (in accordance with paragraph 6.2.5 and subject to paragraph 6.2.6) the quantity of gas ("**Estimated Daily TSMP Quantity**") to be offtaken each Day at all Relevant TSMPs; and
- (c) on that basis, whether such Day is or will be a relevant Day.

6.2.2 The **Estimation Period** is the period from the Day (in month M) on which National Grid NTS makes an estimate until the last Day of month M+1.

6.2.3 A **relevant** Day is a Day in the period (**TDP period**):

- (a) starting on the first Day for which (at the time of any estimate made by National Grid NTS) the Estimated Daily TSMP Quantity is more than 10,000,000 kWh;
- (b) ending on the first following Day for which (at the time of any estimate made by National Grid NTS) the Estimated Daily TSMP Quantity is less than 100,000 kWh, but not later than the last Day of the prevailing Estimation Period.

6.2.4 National Grid NTS will notify Users of:

- (a) (as soon as reasonably practicable after it makes the relevant estimate) the Day on which the TDP period starts, and
- (b) the Day on which the TDP period has ended.

6.2.5 In estimating the quantity of gas to be offtaken on a Day at a Relevant TSMP, National Grid NTS shall (on the basis of information provided by the CDSP and other information available to National Grid NTS at the time), take into account:

- (a) its assessment of whether a VLR User is expected to make a Disposing Trade Nomination in relation to the Relevant TSMP in respect of such Day in accordance with Section E10; and the quantity expected to be subject to such Disposing Trade Nomination shall be deducted in calculating the Estimated Daily TSMP Quantity;
- (b) its assessment of whether the condition in paragraph 6.1.2(d) will be continue to be satisfied on the relevant Day;
- (c) in the case of a NDM Supply Meter Point:
  - (i) subject to paragraph (ii), the seasonal normal demand of the Relevant TSMP;
  - (ii) subject to paragraph 6.2.6, with effect from the NDM Output Nomination Time, and until the Demand Forecast Time at or before 14:00 hours on the Day, the prevailing NDM Supply Meter Point Demand;
- (d) In the case of a LDZ DM Supply Meter Point, the Output Nomination for the Day seven Days before the current Day or the relevant Annual Quantity divided by 365;

- (e) In the case of an NTS Supply Meter Point, historical offtake volumes and any other relevant site data.

6.2.6 Where a Day is not a Business Day, the Estimated Daily TSMP Quantity for that Day will be the quantity estimated, on the last preceding Day ( $D_E$ ) which was a Business Day, for Day  $D_E+1$ .

### **6.3 Purchase of gas**

6.3.1 National Grid NTS will purchase gas, by way of Acquiring Trade Nomination, with a view to having purchased, for each relevant Day, as nearly as practicable the Estimated Daily TSMP Quantity.

6.3.2 Where at any time on the last Business Day before a relevant Day ( $D$ ), or on Day  $D$  if it is a Business Day, the prevailing Estimated Daily TSMP Quantity is less than the aggregate quantity of gas purchased for Day  $D$ , National Grid NTS may sell gas by way of Disposing Trade Nomination.

6.3.3 The purchases and sales of gas by National Grid NTS under this paragraph 6 may be made from or to any User and by any means including 'over-the-counter' trades, Market Transactions, and trades on any other exchange or platform.

6.3.4 In purchasing gas for a relevant Day, National Grid NTS will aim to purchase not less than 30% and not more than 80% of the Estimated Daily TSMP Quantity by way of 'month-ahead' and 'balance-of-month' trades, and the balance (but consistent with paragraph 6.1.7) by 'day-ahead' and 'within-day' trades.

6.3.5 National Grid NTS will conduct its purchases and sales of gas with a view to the economic purchase of the Estimated Daily TSMP Quantity for relevant Days.

### **6.4 TSMP Procurement Amounts**

6.4.1 The amounts payable by National Grid NTS in respect of its purchases of gas under this paragraph 6, net of the amounts payable to it in respect of sales, are "**TSMP Demand Procurement Amounts**" or "**TDP Amounts**".

## **SECTION F – SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY**

*Add new paragraph 4.5.7 to read as follows:*

4.5.7 Where, pursuant to Section D6, any TSMP Demand Procurement Amounts (**TDP Amounts**) are payable by National Grid NTS in respect of any relevant Day (as defined in Section D6.2.3):

- (a) for the purposes of paragraph 4.5.3(a), such TDP Amounts are additional Monthly Adjustment Neutrality Costs in respect of the month  $M$  in which the relevant Day falls, subject to paragraph (b) below;
- (b) the Monthly Neutrality Adjustment Amount for a User in respect of month  $M$  is calculated to include:
  - (i) as additional Monthly Adjustment Neutrality Costs, the TDP Amounts in respect of relevant Days in month  $M$  from and including Day 23 of that month;
  - (ii) an amount calculated as the aggregate TDP Amounts in respect of relevant Days in month  $M+1$  up to and including Day 22 of that month, divided by the sum of all relevant UDQIs and UDQOs for all relevant Users for all Days in

month M, multiplied by the sum of the relevant User's relevant UDQIs and relevant UDQOs for all Days in month M;

- (iii) in respect of relevant Days in month M up to and including Day 22 of that month, a reconciliation amount (added under paragraph 3.5.4(a) or deducted under paragraph 3.5.4(b), as appropriate) calculated as the difference between:
  - (1) the aggregate amount of the additional Monthly Adjustment Neutrality Costs for those relevant Days, as determined in accordance with paragraph (a); and
  - (2) the aggregate amount counted in the Monthly Neutrality Adjustment Amount for the User in Month M-1 pursuant to paragraph (ii).

## 10 Consultation

Ofgem invited representations from interested parties on 08 December 2021. All representations are encompassed within the Appended Representations section.

Please note a blank copy of the suggested consultation template including additional questions from both Panel and Ofgem has been appended in Section 13.

The following table provides a high-level summary of the representations. Of the 9 representations received 5 supported implementation, 1 offered qualified support, 1 provided comments and 2 were not in support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives
Corona Energy	Support	a) positive c) positive d) positive
Energy UK	Comments	a) none c) none d) none
EON	Qualified Support	a) positive c) positive d) positive
Gazprom Energy	Support	a) positive c) positive d) positive
National Grid NTS	Support	a) positive c) positive d) positive

Octopus Energy	Support	a) positive c) positive d) positive
RWE Supply & Trading GmbH	Oppose	a) negative c) negative d) negative
Scottish Power	Oppose	a) none c) none d) none
SSE Energy Supply Limited	Support	a) positive c) positive d) positive

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

## 11 Panel Discussions

### Discussion

The Panel Chair summarised that Modification 0791 (Urgent) would introduce new arrangements to enable National Grid NTS to procure gas where, following the termination of a Shipper User providing shipping services to one or more Gas Suppliers, no new Shipper User (a 'Registered User') is appointed and one or more of the Suppliers acts in accordance with its deed of undertaking until such time a new Registered User is in place.

Panel Members considered the representations made noting that, of the 9 representations received 5 supported implementation, 1 offered qualified support, 1 provided comments and 2 were not in support.

Some Panel Members agreed with respondents, and the Proposer, that this modification would assist in reducing the risk of high gas procurement costs being passed on to customers if Suppliers are acting under a Deed of Undertaking arrangement, where they are not inputting energy into the system.

Some Panel Members recognised the point made by several respondents that the short timescale provided under the Urgent modification procedures had limited the ability for Users to perform their own detailed analysis and that there are many uncertainties in this area.

Modification Panel questions for consultation respondents:

*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?*

*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.*

Panel Members noted the general agreement in the consultation respondents on the start and end trigger levels for National Grid to commence and cease the CPoSD role.

Panel Members discussed briefly RWE's suggestion for the ending trigger and heard from National Grid that this end trigger would not be appropriate because it concentrates the procurement of the volume on the short-term markets which would focus the trading on the OCM and therefore have a potentially detrimental impact on the SMP price.

The basis of the trigger proposed in the Modification was reached through analysis by National Grid.

Some Panel Members considered RWE's suggestion would create more uncertainty.

*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.*

Some Panel Members agreed that the wording of the requirement for National Grid to aim to perform CPoSD actions 'on an economic basis' was sufficient in the drafting and did not require further elaboration. The broader obligations on National Grid applied through its Licence should assure industry that activity will be undertaken with diligence and control.

Some Panel Members noted that National Grid is under obligation to the market to act in an appropriate manner. Reliance will be on the monitoring and audit process (see below).

Panel Members noted the consultation representation from E.ON:

*i) Although a defined term is preferable to ensure it is utilised in a consistent way, we recognise that "economic basis" can be subjective to the situation at the time and due to this we don't believe it needs to be a defined legal term at this time. We would support this being looked at as part of the post implementation review to ensure it is the best approach. ii) We think the legal text needs to go further than that we require the CPoSD to "aim" to purchase gas on an economic basis. NGN's trading strategy will drive risk for suppliers and shippers and in acknowledgement of this, the obligation should be in the very least for the CPoSD to take all reasonable steps to purchase gas on an economic basis. As per the comments in the legal text section we would like to see more detail on the forward purchasing to ensure the economic basis is fulfilled.*

*Q4. CPoSD monitoring and audit*

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

Some Panel Members acknowledged the point made in several of the responses that Users would expect analysis to be undertaken after any CPoSD action to review the operation of the scheme.

Some Panel Members suggested that National Grid should publish high level information as soon as possible after the day. Analysis should include information relating to the volume and price of any procurement actions.

Panel Members note that any publication of volumes and trades could be detrimental to the functioning of the CPoSD role. Communication during the event would skew the event. Therefore, the modification relies on the regulator to request what is required from National Grid in order to fulfil this monitoring and audit role under its existing powers; there is nothing described in the modification to do this. Some feedback to the wider market would be welcome but this can be from the regulator or at the regulator's request.

Panel Members commended the many and varied suggestions in the consultation representations to the Authority and consider the role of the Authority sufficient to choose appropriate monitoring and audit arrangements.

Panel Members noted that the monitoring and audit role is the only manner of assessing the efficacy or otherwise of the CPoSD role carried out.

Panel Members noted that National Grid enter the market under other circumstances such as Shrinkage, in accordance with the license. The Authority may wish to consider whether these similar activities offer appropriate arrangements which could be replicated here.

Ofgem questions for consultation respondents:

*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.*

Panel Members noted that the likely impact of implementing the Modification is very difficult to assess but that in the event of a further shipper failure it would be likely to result in lower costs than the status quo for consumers.

*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?*

*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?*

Panel Members wished to refer the Authority to the relevant objectives below for Q6 and Q7.

Question from Ofgem for Panel Discussion 12 January 2022

*The proposal notes that the supplier operating under the Deed of Undertaking will continue to pay the SMPbuy price, as opposed to a price based on the cost of the gas procured by the CPoSD. Does the Panel consider this to be the right approach?*

Panel Members said that this arrangement is entirely appropriate. The Modification protects the market from an increase in the SMPbuy price which would occur if the Modification was not implemented. The use of the SMPbuy price, incentivises the Supplier to put better arrangements in place.

Some Panel Members consider this arrangement, proposed in Modification 0791 (Urgent), is a short-term arrangement.

A Panel Member noted that there are no “sunset clauses” in the Modification which actually would make the Modification a short-term arrangement. The intention by National Grid is to encourage a review of this situation in 2022/3 (driven by the Authority). Other tools (under Modification 0788) are also in place to mitigate this.

## Consideration of the Relevant Objectives

Panel Members considered relevant objective *a) Efficient and economic operation of the pipe-line system.*

- Panel Members agreed that implementation would have a positive impact because...
  - relying only on the OCM to procure large volumes of gas may materially impact system prices to the detriment of consumers.

Panel Members considered relevant objective *c) Efficient discharge of the licensee's obligations.*

- Some Panel Members agreed that implementation would have a positive impact because...
  - National Grid would be able to more effectively purchase gas to balance system demand in these circumstances and may avoid unduly distorting the SMP to the detriment of consumers.

Panel Members considered relevant objective *d) Securing of effective competition between Shippers and/or Suppliers,*

- Some Panel Members agreed that implementation would have a positive impact because...
  - more efficient and effective purchasing would lower costs and thereby reduce any mutualisation risks. This reduced risk for shippers would aid more effective competition.

## Determinations

Panel Members voted with 13 votes in favour (out of a possible 14) and agreed to recommend implementation of Modification 0791 (Urgent).

# 12 Recommendations

## Panel Recommendation

Panel Members recommended that Modification 0791 (Urgent) should be implemented.

## 13 Appended Consultation Template with Additional Questions

### 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](mailto:enquiries@gasgovernance.co.uk)

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

Representative:	
Organisation:	
Date of Representation:	
Support or oppose implementation?	Support/Oppose/Qualified Support/Comments * <i>delete as appropriate</i>
Relevant Objective:	<p>a) Positive/Negative/None * <i>delete as appropriate</i></p> <p>c) Positive/Negative/None * <i>delete as appropriate</i></p> <p>d) Positive/Negative/None * <i>delete as appropriate</i></p>

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

Insert Text Here

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

Insert Text Here

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

Insert Text Here

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

Insert Text Here

**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?*

Insert Text Here

*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.*

Insert Text Here

*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.*

Insert Text Here

- i)*
- ii)*
- iii)*

*Q4. CPoSD monitoring and audit*

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

Insert Text Here

**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.*

Insert Text Here

*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?*

Insert Text Here

*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?*

Insert Text Here

**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.**

Insert Text Here

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

Insert Text Here

## 14 Appended Representations

Representation - Corona Energy

Representation - Energy UK

Representation - EON

Representation - Gazprom Energy

Representation - National Grid NTS

Representation - Octopus Energy

Representation - RWE Supply & Trading GmbH

Representation - Scottish Power

Representation - SSE Energy Supply Limited

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Dan Fittock
<b>Organisation:</b>	Corona Energy
<b>Date of Representation:</b>	21 December 2021
<b>Support or oppose implementation?</b>	Support
<b>Relevant Objective:</b>	<p>a) Positive</p> <p>c) Positive</p> <p>d) Positive</p>

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

We support the implementation of 0791 as this would ensure that any Suppliers acting under a Deed of Undertaking will have their demand entered into the system by National Grid Gas in their role of Contingency Procurer of Supplier Demand, with cost managed in a ringfenced and expedited manner. This approach ensures that other Shippers operating in difficult market conditions are not required to take on the extra risk as proposed in UNC 0789 and supports competition.

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

We welcome the clarificatory note provided by National Grid Gas on the implementation timescale and we welcome an implementation date ASAP following Authority approval.

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

N/A

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

We are satisfied that the legal text delivers the intent of the solution.

**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 believe that the logic behind the 10,000,000 kWh trigger is sound and that this trigger volume for the initiation of National Grid Gas' role of Contingency Procurer of Supplier Demand is reasonable.

*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 that the logic behind the 100,000 kWh trigger is sound and that this trigger volume for the cessation of National Grid Gas' role of Contingency Procurer of Supplier Demand is reasonable. We believe that any remaining imbalance under this threshold can be managed by National Grid Gas' role as Residual Balancer.

*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 have not procured a legal opinion on this matter, but do not believe that this would have a material impact on the solution of 0791.
- ii) We believe that this provides sufficient protection for the industry, as the role of Contingency Procurer of Supplier Demand is a time-bound role that National Grid Gas would only undertake under specific market conditions.
- iii) We do not foresee any unintended consequences.

*Q4. CPoSD monitoring and audit*

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

We do not have a view on the monitoring and auditing arrangements for this role.

**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 would expect that the impact on the industry if the status quo was maintained would be an insufficient cash flow for National Grid Gas, resulting in changes to their charging methodologies and a material increase of costs to Shippers and subsequently to consumers to cover the risk in this area.

*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 foresee an increase in National Grid Gas' costs due to their trading activities as part of their role as Contingency Procurer of Supplier Demand, however as this role would be time bound until such a time as Suppliers acting under a Deed of Undertaking have successfully appointed a new Shipper – a process in itself already expedited by the implementation of UNC 0788.

*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 are not in a position to provide a view at this time.

**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.*

N/A

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

N/A

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Julie Cox
<b>Organisation:</b>	Energy UK
<b>Date of Representation:</b>	23 December 2021
<b>Support or oppose implementation?</b>	Comments Only
<b>Relevant Objective:</b>	<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 with<sup>1</sup>. Only Ofgem has sight of information which informs the likelihood of further shipper failure.

<sup>1</sup> <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 December<sup>2</sup>, 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*

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<sup>2</sup><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

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Clare Manning
<b>Organisation:</b>	EON
<b>Date of Representation:</b>	22/12/2021
<b>Support or oppose implementation?</b>	Qualified Support
<b>Relevant Objective:</b>	<p>a) Positive</p> <p>c) Positive</p> <p>d) Positive</p>

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

We support the intention of this modification and what it sets out to achieve in the timescales required; indeed we are already witnessing perverse outcomes on the OCM as a result of National Grid Metering (NGM) purchasing in a long system. We believe that the proposed solution is the best option that can be achieved in the current circumstances, and will mean that shippers will receive a more systematically positive share of balancing neutrality. We don't however view this as an enduring solution, for example making the arrangements under Modification 0788 mandatory might be a better long term solution.

We firmly believe that these charges should include a new charge/separate line item on the IDB. Whilst we realise that this will mean additional (system) changes delivered via a UK Link change it would however mean that parties are able to differentiate between the charges and what relate to the new role and can therefore validate the costs (similar to Shrinkage). We have concerns that without this the charges are lost in the standard invoicing processes and validating of the invoices becomes a black box which cannot be replicated, which we see as an issue and leaves parties in a position where energy purchasing in this scenario becomes 'good faith' rather than a robust process which can survive scrutiny.

We support a full post implementation review of the process if approved, this is to ensure that the solution remains the best and most robust for the industry and not just a sticky plaster for the issue at time of approval/implementation.

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

We believe that the proposed solution and the additional line item on the IDB could be delivered in as little as 12 weeks and recognise the 9 week requirement to deliver the new role type into Gemini. As an urgent mod we support the best implementation window for industry and support the timings if the majority of industry and systems can be ready in this time. Should longer time be needed we believe this should be taken into account when setting the modification implementation date.

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

The costs for the new role would be minimal and would be our proportion of the ROM costs. We see little internal change needed for this activity.

Our request to add the charges into the IDB would however need additional resource to deliver and to validate the new charges, an activity which cannot be done if the file format remains as-is. If they are a new line item this will require system changes but not significant and as advised in the implementation section, we believe can be done on a slightly longer timescale to those for a new role type in Gemini.

We would also need to consider if there is any impact to our credit cover.

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

We are satisfied that the legal text will deliver the intent of the Solution. We however support a post implementation review of the text to ensure it is robust and fit for purpose.

We would like to see in more detail the timings which will be purchased for, however, we recognise this might be hard to define and would ask that as part of the process being trialled that legal text is reviewed to ensure it remains robust and in line with the activities being undertaken.

**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 believe this is a sensible starting point but thresholds should be reviewed after the solution is first utilised and again after six months of use, or, six months after implementation even if it hasn't been utilised. This is to ensure it remains robust and considers current day market positions. We don't believe these numbers should remain in place if the evidence doesn't support them.

*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.*

As above.

*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>
----------------------------	--

- 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) Although a defined term is preferable to ensure it is utilised in a consistent way we recognise that "economic basis" can be subjective to the situation at the time and due to this we don't believe it needs to be a defined legal term at this time. We would support this being looked at as part of the post implementation review to ensure it is the best approach.

ii) We think the legal text needs to go further than that we require the CPoSD to "aim" to purchase gas on an economic basis. NGN's trading strategy will drive risk for suppliers and shippers and in acknowledgement of this, the obligation should be in the very least for the CPoSD to take all reasonable steps to purchase gas on an economic basis. As per the comments in the legal text section we would like to see more detail on the forward purchasing to ensure the economic basis is fulfilled.

*Q4. CPoSD monitoring and audit*

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

We do believe that there should be some transparency in regards to the CPoSD trading strategy; this could be in the form of backing data provided alongside the invoice to illustrate how the relevant shipper's share has been calculated and the transactions that make up the charge. As referenced in our earlier response it should not be a black box which cannot be validated.

Shippers should be able to validate and differentiate charges for each of NGM's roles. We believe that adding these costs as an separate line item on the IDB provides this opportunity.

We expect that the purchases NGM makes in the role of CPoSD should be included in the allowable revenue allocation so that they may be reviewed by Ofgem and excluded in the circumstances where NGM has not adequately fulfilled the role of CPoSD; this is the only way in which any lost costs might be recouped.

We believe that outturn costs vs SMP should be reviewed after the first operation of this solution and again six months afterwards to ensure this solution is operating as intended.

**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 SMP buy/sell out price will continue to be perversely effected but we do not believe that this is to the extent that justifies an alternative solution.

*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?*

Shippers should receive a more systematically positive share of balancing neutrality, but there is obviously still a risk that if NGN purchase the gas forwards, and there is a price drop that shippers will pay a higher price but receive the lower.

The fact that suppliers are still buying at SMP should incentivise shipping arrangements being put in place as soon as possible but in the circumstances that the supplier itself is at risk of failure or does actually fail after NGM has purchased forward, we are uncertain if this might make it more costly for the market.

It is our understanding, that the initial payment to fund CPoSD trading will happen at M+1 and be reconciled at M+2. We are not then clear on the length of time until shippers receive payments back from the balancing neutrality fund; if this is at M+2/M+3 then shippers are funding the cash flow for 1/2 months.

*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?*

No comment

**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.*

The modification report states that NGN will not be required to publish volumes or prices at which it has purchased gas. We have suggested that this is provide as backing data so that shippers can validate charges as is their right.

We would also appreciate transparency on the portfolio size the CPoSD is managing and also on how long it expects suppliers to be without a shipper so that shippers can estimate and plan for these additional charges.

In addition to the kWh thresholds being reviewed, we would also like to see the procurement levels (i.e. not more than 80%, not less than 30%) be reviewed after the first utilisation of the solution as well as again at six months to ensure this is still fit for purpose.

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

NA.



## 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:** Gazprom Energy  
5<sup>th</sup> Floor  
8 First Street  
Manchester  
M15 4RP
4. **Representative:** Steve Mulinganie  
Regulation Manager  
[stevemulinganie@gazprom-mt.com](mailto:stevemulinganie@gazprom-mt.com)  
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.

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Phil Hobbins
<b>Organisation:</b>	National Grid NTS
<b>Date of Representation:</b>	22 <sup>nd</sup> December 2021
<b>Support or oppose implementation?</b>	Support
<b>Relevant Objective:</b>	<b>a)</b> Positive <b>c)</b> Positive <b>d)</b> Positive

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

In the current market conditions, there remains a heightened risk of shipper insolvency and hence termination from the UNC, potentially leading to suppliers not having shipping arrangements in place and hence no party delivering gas to the system to meet the demand from a terminated shipper's portfolio of supply points. The implementation of Modification 0788 and the potential application of the Special Administration Regime provide some mitigation for this scenario, however, as the former is a voluntary arrangement and the latter dependent on the circumstances in a particular case and subject to Secretary of State approval, we believe that the solution proposed by Modification 0791 is required.

If the criteria for National Grid NTS to commence gas procurement contained in the Modification were to be triggered, implementation would be likely to result in lower system prices than would otherwise be the case, helping to alleviate the current financial challenges being faced by many market participants and thereby helping to secure effective competition under Relevant Objective (d). Enabling National Grid NTS to trade in markets other than the OCM to fulfil the procurement requirement manages the risk of it becoming a dominant party in the within-day market and promotes the fulfilment of its obligations in a more efficient manner to the benefit of Relevant Objective (c), whilst also reducing the scope for system prices not being reflective of supply/demand fundamentals which should result in more efficient system usage and operation, to the benefit of Relevant Objective (a).

We believe that it is neither appropriate nor desirable for National Grid NTS in its role as the residual balancer to procure gas in these circumstances and have demonstrated the potential scale of the debt that the balancing neutrality account could be required to support if this continues to be the case. We have also listened to feedback from our customers who believe that an alternative solution of placing responsibility on all other shippers to directly procure gas in this situation would cause practical difficulties and inequitable outcomes. Therefore, until a more comprehensive regulatory review can be completed which addresses the core issue of a lack of continuity in shipping arrangements in these circumstances, we believe that the solution proposed in UNC0791 represents a pragmatic and proportionate response to work in conjunction with the already implemented Modification 0788.

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

We believe that it would be possible to commence the new gas procurement activity with a minimal lead-time following an Ofgem direction to implement UNC0791, although this would only be required if the criteria to trigger the proposed gas procurement activity actually arises.

There is a requirement for the CDSP to deliver an automated tool in order to process the balancing neutrality reconciliation (as envisaged in stage 2 on the schematic on page 14 of the Modification Proposal). However, given that this tool is only required to be in place from two months after any gas procurement activity, this Modification could still be implemented before the tool is available. Due to the relatively low cost of delivering this tool compared to the potential benefit of UNC0791, National Grid NTS has already

instructed the CDSP to start development work on it and we expect it to be available by mid-March 2022.

As also mentioned in the Modification, there are some additional information requirements that we would need from the CDSP to enable estimation of the procurement volume requirements and these are included within the same Change Proposal as the reconciliation solution. Additional processes need to be set up by the CDSP to deliver this on an enduring basis but if the Modification were approved and gas procurement activity required before mid-March 2022 then this information would still be obtainable via manual processes until the Change Proposal is implemented.

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

The CDSP provided an initial estimate of between £9k and £18k to deliver the automated reconciliation tool which we reported in the Modification Proposal. Since then, the CDSP has examined the requirements in more detail and has provided a Business Evaluation Report quoting costs of £20.4k to deliver the automated reconciliation tool and additional processes to provide the data to inform the procurement requirement. Additionally, we are working internally to put in place the necessary procedures and processes to enable National Grid NTS to undertake this role should a positive implementation decision be made, however we expect any associated further development costs to be minimal.

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

Yes.

**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?*

As the Proposer of this Modification, we feel that it is appropriate to base the volume trigger for such gas procurement activity to begin on a historical level of shipper imbalance for which no residual balancing trades were taken, as proposed in the Modification. We would also note that this threshold would be net of any contributions to the terminated shipper's imbalance as a result of Modification 0788.

*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.*

As Proposer of this Modification, we also agree that 100,000 kWh is an appropriate trigger to cease the gas procurement activity; in our view it would neither be meaningful nor practical to seek to source gas for a lower volume than this. Once this role starts, the aim is to minimise the impact of the shipper failure on residual balancing activity, therefore, as Proposer we believe that it is prudent for the role to continue until such time as the volumes are small to keep the requirement outside of the residual balancer role for the reasons outlined in the Modification. We would note that the thresholds to start and stop the proposed procurement arrangement were discussed as part of the Modification 0789/A workshops with no dissenting views.

### *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 that the wording "on an economic basis" has a specific legal definition. Rather, the section of the legal text that requires purchases and any sales of gas to be conducted "with a view to the economic purchase" of the required volume means that economy in such procurement shall be the aim of National Grid NTS, which in practice would be discharged by a mix of forward and prompt gas trades.

It is appropriate that this is an aim rather than an absolute obligation because it cannot be guaranteed; for example, if the gas price were to fall materially between forward trades and the day of delivery then prompt purchases alone could – with the benefit of hindsight – have been the cheaper option. However, forward purchasing to hedge this risk is the prudent approach to secure some of the volume requirement ahead of delivery in order to avoid potential liquidity issues, provide cost certainty ahead of delivery and mitigate exposure to market volatility. Whilst we would have some freedom to structure the actual procurement strategy, this wording effectively creates an obligation on National Grid NTS to select the best possible price when trading and to endeavour to secure a reasonable proportion of the forecast volume requirement on a forward basis.

- ii) In developing UNC0791, we have tried to strike a balance between setting an explicit trading strategy whilst retaining a degree of flexibility to procure volumes based on our view of market prices at the time. We feel that the approach we have proposed fulfils this given the inherent uncertainty in how market prices will move between the point of trade execution and the day of delivery. We feel that an

obligation to endeavour to procure this gas economically, consistent with the wider efficiency and economy obligations in our Licence, is sufficient to assure industry that the activity will be undertaken with the right amount of diligence and control.

- iii) We are not aware of any unintended consequences that could arise from obliging National Grid NTS to endeavour to conduct this gas procurement activity economically. The obligation to endeavour to buy some of the forecast requirement in the forward markets should minimise the risk of National Grid buying material volumes and occupying a dominant position in the market.

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

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

Transparency in relation to the CPoSD role was an issue that was debated in the Modification 0789 workshops, and we believe that an obligation to announce to the market when the role has been triggered and when it has ceased – as is proposed in UNC0791 – was the majority view. It was recognised in this discussion that National Grid NTS has obligations in its Licence to undertake its activities on an economic and efficient basis which are further reinforced by the legal text for this Modification.

Aggregate gas procurement costs as a consequence of this role will be available on the monthly balancing neutrality statement published by the CDSP. We do not see value in reporting individual transactions and indeed this may be unhelpful because it may then be possible to argue that gas could have been procured at a lower cost but only with the benefit of hindsight.

#### **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.*

It is impossible to be precise about the impact of maintaining the status quo because we do not know whether any more shipping businesses will cease trading and leave unsupported demand in the market. Rather, the 0791 proposal recognises that there is a *risk* of this happening and seeks to apply further mitigations to limit the impact, should it happen.

Our latest analysis contained within the Modification shows that where a shipper with a portfolio of 800,000 meter points fails and the associated Supplier/s elect to operate under a deed of undertaking, the peak exposure for the balancing neutrality account would be £374m. We would now regard this portfolio size as a reasonable worst-case scenario but would also note that this assumed a gas price of 225p/therm, which is somewhat below the current market prices for the remainder of the winter. This value would be materially reduced in all the scenarios we have modelled if UNC0791 were implemented. The costs of residual balancing trades feed into cash-out prices which shippers are exposed to and if the volumes associated to such trades were material then these could be expected to lead to higher system prices, the costs of which would ultimately be borne by consumers.

We therefore believe that it is appropriate to have an alternative solution in place that mitigates this risk by enabling a more considered procurement strategy, avoids such costs feeding into cash-out prices and which reduces the risk of the balancing neutrality account accumulating significant and potentially unsustainable debt pending cost recovery via Balancing Neutrality Charges.

*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 believe that the implementation of UNC0791 would lead to reduced costs for consumers when compared with maintenance of the status quo (if the criteria for these contingency arrangements were met).

Under existing arrangements, the costs of residual balancing actions are socialised across all Shipper Users. The proposed approach would avoid additional gas procurement activity being undertaken by National Grid NTS in its residual balancing role, with such gas being alternatively procured via a wider range of tools and timescales. We would expect this to result in lower system prices than would otherwise be the case, therefore ultimately resulting in lower costs being passed through to consumers.

By enabling a solution in which price risk can be hedged, the potential for the additional gas volumes to be sourced more economically than purely on prompt markets is increased. It would also help manage the risks of National Grid NTS being unable to secure the volumes required and taking a dominant and distressed position in a particular market which would drive higher prices. By mitigating these price effects, the proposed CPoSD role should help to minimise the risk of other shippers becoming insolvent and thereby help to maintain the integrity of the GB gas market.

When operating under its 'deed of undertaking' in these circumstances, a supplier would still be exposed to cash-out at the SMP buy price. We believe this is appropriate because it incentivises the party operating in this way to put in place new shipping arrangements, whether this be via the utilisation of the Modification 0788 solution (which itself reduces the likelihood of arrangements under this Modification 0791 being triggered) or via putting in place a new Registered User. Additionally, this treatment of an imbalance at SMP buy maintains consistency with all other parties who are short of gas on the day. We would expect the SMP buy price to be lower than it would otherwise be had the gas been procured via the residual balancer, so parties who are exposed to that price under the deed of undertaking are still likely to be in a more favourable position compared to the status quo.

*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 already have arrangements in place to conduct 'over the counter' trading and trading on exchanges as well as on the OCM for shrinkage purposes, and so therefore do not envisage there to be any additional costs for National Grid NTS of operating in markets outside the OCM. Set up of this new trading function will ensure separate accounting for shrinkage and CPoSD trades.

We do not consider there to be a risk of National Grid NTS essentially assuming the role of a shipper as a consequence of this Modification because there would be no contractual arrangement with either suppliers or consumers to sell the gas on to; rather, our position of cash-neutrality would be maintained. Any risks of National Grid NTS being a dominant player in a particular market would be further mitigated by an ability to access a variety of market venues and procurement timescales compared to those available in the residual balancer role.

Other mitigations exist that may prevent the need for the CPoSD role to be performed, including the Special Administration Regime, Last Resort User appointments and opportunities for relevant supplier(s) to mitigate their SMP buy exposure via the provisions in Modification 0788. Furthermore, as supply points associated to a terminated shipper would transfer to other shippers over time, any such procurement activity would be temporary in nature.

We therefore regard this solution as a pragmatic response that is appropriate for the current market circumstances until a more comprehensive review of regulatory arrangements in these circumstances can be completed and an enduring solution established that addresses the core issue of maintaining continuity in shipping arrangements in all cases.

Larger market risks arise in our view from maintaining existing arrangements where National Grid NTS has the potential to become a counterparty to large proportion of 'on the day' trades which would (a) threaten its ability to secure the required volumes (b) drive up system prices and therefore costs for shippers and (c), threaten to burden the balancing neutrality account with potentially unsustainable debt.

**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.*

No.

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

No.

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Dion Tickner
<b>Organisation:</b>	Octopus Energy
<b>Date of Representation:</b>	24/12/2021
<b>Support or oppose implementation?</b>	Support
<b>Relevant Objective:</b>	<p>a) Positive</p> <p>c) Positive</p> <p>d) Positive</p>

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

Octopus Energy supports the proposal outlined in Mod 0791. We think this option is preferable to what was proposed in 0789.

Octopus do, however, share the concerns raised by Energy UK with regards to the need for urgency with this modification. Subsequently, we found we were unable to provide a response to many of the questions listed below within the given timeframe of this consultation. Without working groups industry is not able to effectively debate unintended consequences.

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

N/A

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

We are not aware of any impact of costs that we would face from the implementation of this proposal.

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

N/A

#### 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?*

N/A

*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.*

N/A

*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.*

N/A

*Q4. CPoSD monitoring and audit*

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

N/A

**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.*

N/A

*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?*

N/A

*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?*

N/A

**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.*

N/A

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

N/A

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Lauren Jauss
<b>Organisation:</b>	RWE Supply & Trading GmbH
<b>Date of Representation:</b>	24 December 2021
<b>Support or oppose implementation?</b>	Oppose
<b>Relevant Objective:</b>	<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.

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Gerry Hoggan
<b>Organisation:</b>	Scottish Power
<b>Date of Representation:</b>	24 December 2021
<b>Support or oppose implementation?</b>	Oppose
<b>Relevant Objective:</b>	<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)*

Whilst we recognise and support the intention behind the proposal and appreciate that it was born out of some of the wider discussions on the now withdrawn MOD0789, we have concerns over the need for, and use of urgent processes, as we have expressed in other recent modifications. The use of such procedures stunts development and debate and restricts the ability for other Alternatives to be brought forward, in circumstances where it is currently not clear that any further shipper failure is imminent. Allowing for the potentially significant implications for shippers it is critical that the process should be robust and that there should be no unintended consequences and we remain concerned that that cannot be said with the required degree of certainty.

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

If implemented we agree with the proposed implementation date as further clarified in the note from National Grid Gas (NGG) of 2<sup>nd</sup> December 2021, although there needs to be greater certainty as to how shippers will be notified of various triggers points in the processes.

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

None identified to this point

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

We have not reviewed the legal text.

**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?*

While the logic behind the trigger would appear to be sound, we have not had an opportunity to fully evaluate the level quoted or any other alternative

*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.*

As Q.1 above. Any volume <100,000 kWh should be manageable by NGG in its current role as residual balancer

*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) Further definition is required as regards new paragraph 6.3.4, whether that is by reference to similar obligations in NGG's licence or more explicitly, to give greater clarity around what is meant by "will aim to do so on an economic basis"
- ii) As currently worded, it is not clear exactly the level of protection that would be offered by this provision

- iii) We are concerned that there may be unintended consequences that may not have been brought out by the limited analysis has been possible within the urgent process timetable

*Q4. CPoSD monitoring and audit*

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

The audit process appears reasonable, although we would suggest that there should be some role for Ofgem to scrutinise NGG's role in procuring on "an economic basis".

**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.*

Any such impact would be entirely dependent on consequential shipper failures and the scale of that failure, and the likelihood of that is something that we are unable to comment upon. As highlighted during industry workshops in relation to MOD0789 in the event of a shipper failure and the current arrangements operating this may result in SMP Buy Price being higher, although that would be in the context of the whole system imbalance position. It was for this reason that this alternative option was explored, although we remain concerned whether this is the only option available, any accompanying unintended consequences, and the truncated process which has constrained the ability to develop either this proposal or any other alternatives

*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?*

Again, this would be dependent on consequential shipper failures and the scale of such failures, but the lack of overall transparency in the proposal may yet lead to sizeable and possibly unexpected neutrality costs being faced by shippers

*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 have not been in a position to assess fully any such cost/risks so are currently unable to offer a view. Inevitably though the NGG's costs would increase through their operation of this role

**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.*

There are still issues around how and when shippers will be notified of the various trigger points in the process as well as a need for further scrutiny of NGG in performing the role of CPoSD

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

None

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Mark Jones
<b>Organisation:</b>	SSE Energy Supply Limited
<b>Date of Representation:</b>	24 December 2021
<b>Support or oppose implementation?</b>	Support
<b>Relevant Objective:</b>	<p>a) Positive</p> <p>c) Positive</p> <p>d) Positive</p>

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

The modification will allow National Grid NTS to be able to purchase gas other than from just on the OCM, which is likely to reduce overall industry costs. It will also allow National Grid NTS to recover costs faster than would be otherwise be possible via its residual balancer role, which will reduce the risk of negative cashflow implications on National Grid NTS.

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

We would like to see the modification implemented as soon as possible, in order that the risks identified, that led to it being raised, can be mitigated at the earliest opportunity.

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

We have not identified any significant costs with implementing this modification.

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

Yes.

**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?*

Yes, we believe that this trigger level is appropriate. This figure was discussed during the Modification 0789 workshops and the participants at those workshops largely concluded that this is an appropriate figure.

*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.*

Yes, we believe that this trigger level is appropriate. This figure was also discussed during the Modification 0789 workshops and the participants at those workshops largely concluded that this is an appropriate figure.

*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, - No*
- ii) provides sufficient protection to industry or not and - Yes*
- iii) could have any unintended consequences or not? - Yes*

*Please provide an explanation for each response.*

Insert Text Here

- i) We do not believe that "on an economic basis" has a legal definition and we do not think that it is required to be a defined term within the UNC.*
- ii) Whilst we do not believe that "on an economic basis" is required to a defined term, the fact that as it is in the UNC, we would expect National Grid NTS to take account of it and act in this manner. If the current situation is considered, with National Grid NTS only purchasing on the OCM, this gives no further protection to industry and, in all probability, implementation of UNC 0791 is likely to result in a more favourable outcome than the status quo.*
- iii) An unintended consequence is that, with hindsight, there may have been instances where purchasing only on the OCM would have resulted in a more*

*favourable outcome, but this outcome is a possibility of any act of forward gas purchasing that could have been left to a later date.*

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

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

We would expect NTS to report its actions undertaken to Ofgem if required, and NTS will provide aggregate gas purchasing costs on a monthly basis.

#### **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 likely impact is unknown at this point if the status quo was maintained for this winter, as to the future likelihood of further shippers failing and leaving shipperless sites is not known, and so the number and size of sites that would be left shipperless is unlikely to be able to be reasonably estimated. However, it must be recognised that UNC 0791 was raised some time ago and by the time the modification process is completed, we will be over half-way through the winter and, therefore, the size of the concern that National Grid NTS initially had when it raised UNC 0789, will have naturally eroded. That said having the UNC 0791 solution in place is a very useful risk mitigation tool for National Grid NTS, is likely to result in lower industry costs if it is required to be used, and it has the benefit that a fairly low cost solution is required in order for it to be put in place in the interim.

*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 believe that UNC 0791, if it is enacted at some point due to the trigger point being reached, will lead to lower overall gas costs and is likely to result in lower system prices as gas purchasing would be smoothed out over a longer period, and so is less likely to lead to price spikes on the OCM.

*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?*

The risks are that National Grid NTS purchases gas that is more expensive than would have been the case if it had purchased all of the required gas on the OCM, However, this an inherent risk in operating in multiple markets that react to pricing signals and it is far more likely that National Grid NTS will lower costs to the industry by operating in markets other than the OCM.

**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.*

No.

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