

UNC Modification	At what stage is this document in the process?
<h1>UNC 0XXX:</h1> <h2>Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 2px solid green; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 2px solid blue; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 2px solid purple; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 2px solid orange; border-radius: 10px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</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>Next Steps:</p> <p>The Proposer recommends that this Modification should be</p> <ul style="list-style-type: none"> treated as urgent and should proceed as such under a timetable agreed with the Authority. 	
<p>Impacted Parties:</p> <p>High: Suppliers, Shippers, National Grid NTS, Consumers</p> <p>Low:</p> <p>None: Distribution Network Operators</p>	
<p>Impacted Codes:</p> <p>None.</p>	

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 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 NGG becoming a significant counterparty to a large proportion of trades on the day and therefore experience challenges with liquidity. 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 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 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 that 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 Proposal, there remains a risk of significant commercial impact on Users if not addressed urgently. Without this Proposal, the potential requirement for the residual balancer to take large actions in the OCM could result in NGG becoming a counterparty to a large proportion of trades on the day and therefore experience challenges with liquidity. 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, which 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, 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
- 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 (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 buys and system sells 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. This 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 workshops held between 5th and 11th November 2021 (as directed by Ofgem in its letter dated 27 October 2021, available here <https://www.gasgovernance.co.uk/0789>).

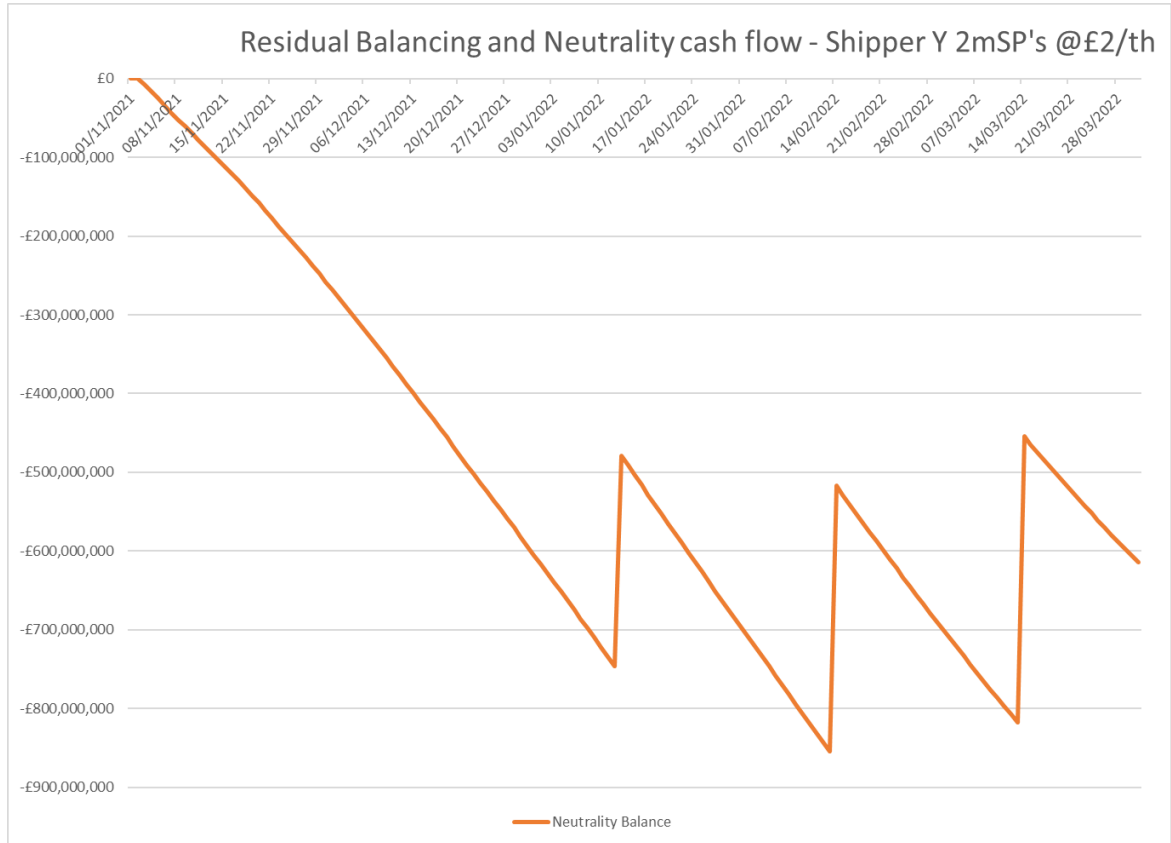
During those National Grid NTS workshop discussions, National Grid NTS heard concerns expressed that many shipping businesses are not set up to procure gas on a prompt basis, contracts are structured to provide for their own portfolios and not beyond that and that. In addition, the 0789 Modification 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 has informed the solution presented within this 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 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 conclude prior to Winter 2022.

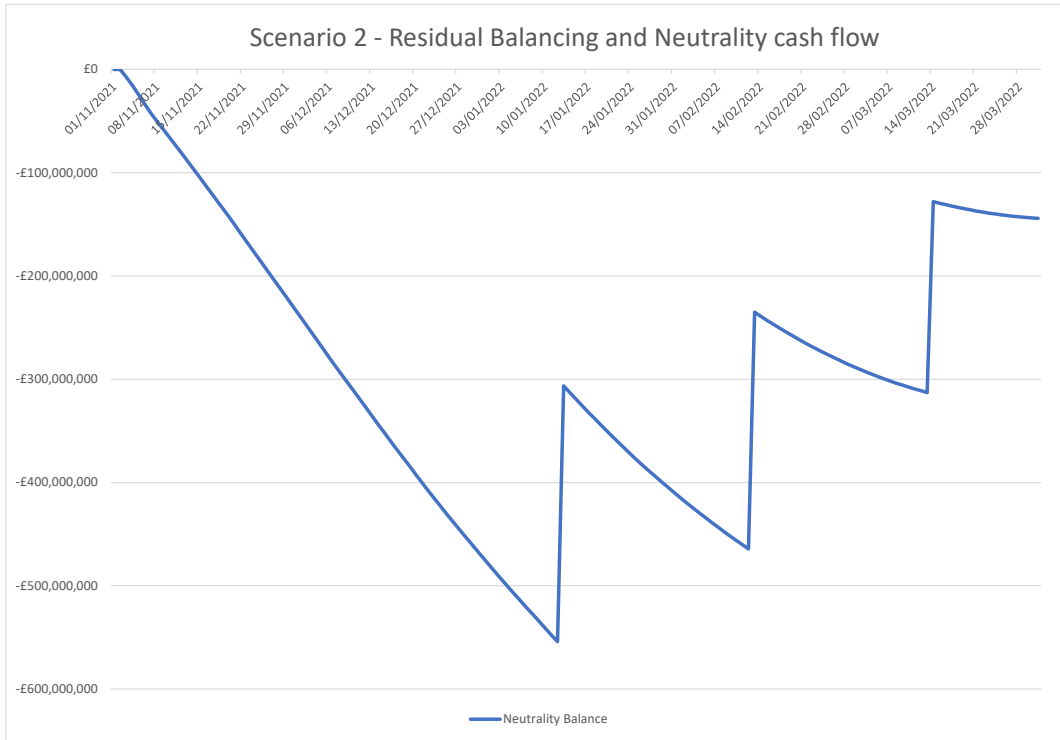
Potential Materiality

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.

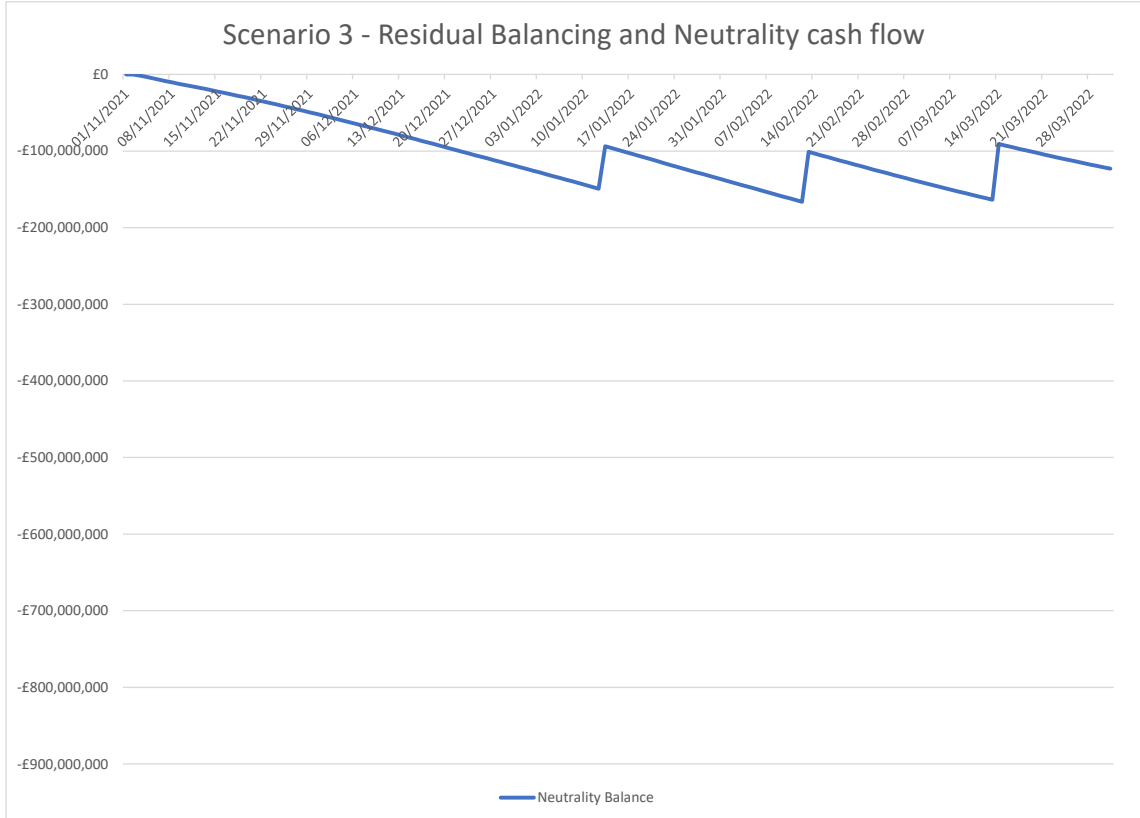
- 1) Assuming no migration of supply points from the failed shipper, peak neutrality exposure of ~£854m



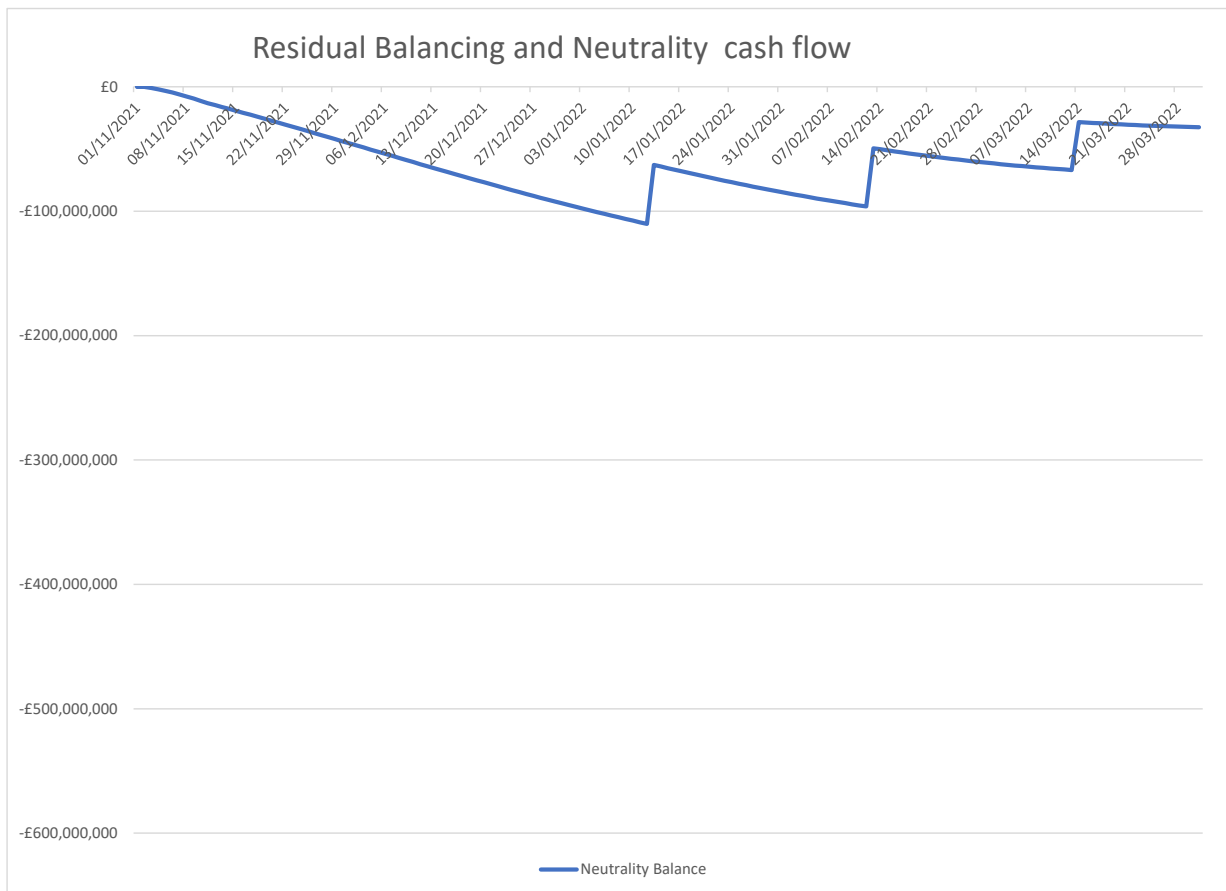
2) Assuming a steady migration of supply points to other shippers (peak neutrality exposure of ~£554m)



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.



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.

National Grid 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

The solution advocated by 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, therefore Balancing Neutrality will be used to fund the settlement and costs associated to 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 given that 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, less any volumes expected to be covered by Modification 0788 arrangements and taking into account the forecast meter point transfers away from the Discontinuing User 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 70% 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 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 Terminated Supply Meter Points (V1)
- iii) 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 and the associated volumes (V2)
- iv) CDSP provides a daily 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. (V3)
- v) Forecast Requirement for day D = V1 – V2 – V3.

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 aggregate seasonal normal demand of any DM sites within the Discontinuing User's portfolio less any volumes expected to be covered by Modification 0788 arrangements. 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 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:

- vi) On the Day Commodity Market (OCM);
- vii) Over the Counter (OTC) trading;
- viii) Other gas exchanges

The cost recovery timescales proposed in section E below shall apply irrespective of which market the gas is procured on. In the event that 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

The CPoSD account will be exempt from Balancing Charges and 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 CPoSD Incurred Costs

It is proposed that:

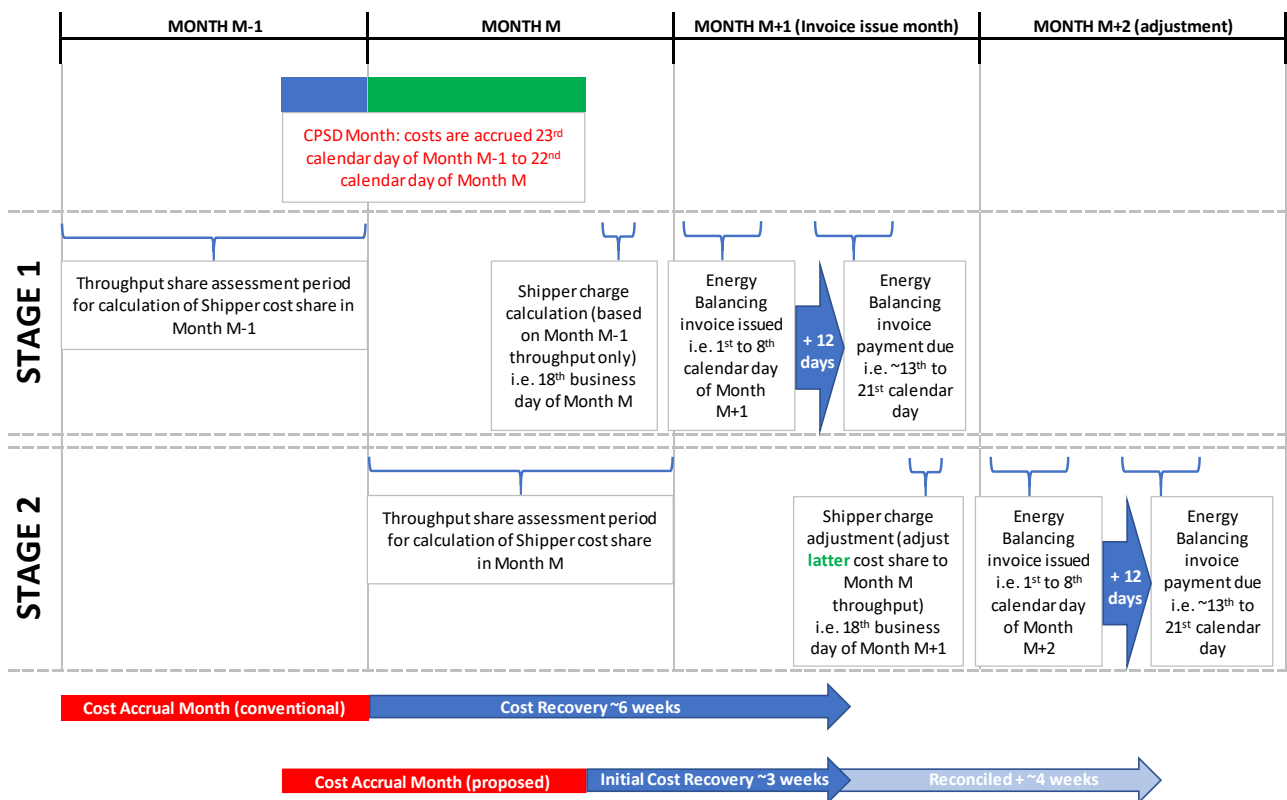
- The gas procurement costs defined as amounts payable in respect of trades for Gas Days in the CPoSD month in undertaking its role (over the course of a monthly period – the '**CPoSD Month**') will be recovered from Users via Balancing Neutrality Charges based on the prevailing throughput share applicable to each user for that Energy Balancing Invoice;
- The CPoSD Month commences on the 23rd calendar day of a month (falling in calendar month M-1) and ends at the conclusion of the 22nd calendar day of the following month (falling in calendar month M);
- Amounts payable by the CPoSD in respect of trades for Gas Days in the CPoSD month are 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 as the case may be, 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 being 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>If National Grid NTS is able to secure the additional supplies at a lower unit cost, via a range of markets compared to the impact full procurement by the residual balancer via the OCM would have on the SAP and marginal prices on the day, this should reduce the extent of costs passed through to consumers and 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 thereby reduce the risk of further financial challenges for market participants.</p>	<p>Positive</p>
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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) 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.

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 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.

9 Legal Text

Text Commentary

Insert text here.

Text

MODIFICATION [XXXX]

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

Proposed legal text

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), 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) subject to paragraph (d), the seasonal normal demand of the Relevant TSMP;
- (d) in the case of a NDM Supply Meter Point (but 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.

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 70% 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 D6.3.3):
 - (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:
 - (A) the aggregate amount of the additional Monthly Adjustment Neutrality Costs for those relevant Days, as determined in accordance with paragraph (a); and
 - (B) the aggregate amount counted in the Monthly Neutrality Adjustment Amount for the User in Month M-1 pursuant to paragraph (ii).

10 Recommendations

Proposer's Recommendation

This Modification should be treated as Urgent and should proceed as such under a timetable directed by the Authority.