



UNC 0789 – Potential Alternatives

November 2021

Our Concerns with UNC 0789 (as drafted)

- This Mod presents significant new risks for Shippers
- In the event of a Shipper failure, shifts risk into the whole market on a daily basis and may increase the cost of covering failed Shipper's imbalance
- May distort market behaviour by market participants and impact prices
- Lack of transparency of balancing neutrality pot and likely mismatch between costs incurred and compensation via balancing neutrality, with settlement time lag
- Size of the imbalance allocated could make Shipper credit position worse, impacting trading and market prices

Potential Alternative 1 – For Discussion

Apply existing model used for failed Suppliers, to Shippers

Guiding principle - allows those Shippers best placed to manage the risk, the opportunity to do so

- Rather than spreading risk across the whole market and on those who may not be able to manage it (or at less cost than current arrangements)

Ofgem / NGG to run an auction / tender for managing failed Shipper's imbalance

- Could be for whole imbalance or sub-divided (e.g. if large or multiple shippers)
- Most likely for the whole period rather than a daily event, to provide stability and certainty
 - May need to be time limited, or sufficient incentives to minimise this interim arrangement
- Eligibility criteria to be developed but broadly similar to Supplier arrangements – e.g. have to prove financial fitness to undertake the role
- Successful Shippers may need some form of “guarantee” that Supplier will pay (financial or Code obligation?)
- Likely requires a ‘Shipper of Last Resort’ to be appointed, if no Shippers come forward

Potential Alternative 2 – For Discussion

- **Maintain residual balancer role for NGG, but take measures to increase liquidity of OCM, without expanding to OTC**
- Expanding OTC trading possibilities puts NGG “in the market” as a trading counterparty. We do not consider that this is desirable:
 - May distort trading behaviours and/or impact prices
 - NGG trades on OTC infrequently – risk of not have the experience or familiarity with systems and processes when needed?