

Representation – Urgent Workgroup Report 0560

Addressing under-allocation of flows from BBL arising from misalignment of reference conditions

Responses invited by: **17 November 2015**

To: enquiries@gasgovernance.co.uk

Representative:	Sue Ellwood
Organisation:	TPA, on behalf of GasTerra
Date of Representation:	16.11.15
Support or oppose implementation?	Support
Relevant Objective:	d) Positive g) Positive

Reasons for support:

Without this modification, as a result of the misalignment of reference conditions between BBL and the NTS, BBL Users' gas flows at BBL IP will be under-allocated by 0.1% each day from 1st October 2015, for a seven month period. Whilst this is a small daily percentage, cumulatively it constitutes a material loss of value for BBL Users and as such, it is appropriate that it should be rectified.

Modification 519 was developed to address harmonisation of reference conditions at IPs and has been approved. The associated IT Solution is being implemented from 1st May 2016. It addresses the issue by a daily correction of the gas quantities allocated to each BBL User in Gemini, which means that their imbalance charges (and neutrality) are then calculated correctly. It also explicitly 'ringfences' the solution to imbalance charges and so the correction of a User's allocations is limited to energy balancing and has no other effect on any other charges.

The Industry and Ofgem accepted that the issue of reference conditions should be addressed with modification 519, and accepted/agreed the principles of the solution.

The harmonisation of reference conditions was not thought to be necessary until 1st May 2016 when it is legally required by the Interoperability Code. It is the application of nominations matching and allocate-as-nominate rules on 1st October 2015 which has resulted in the lack of alignment in reference conditions becoming a problem earlier than expected. This problem was clearly not anticipated, otherwise it would be reasonable to expect that the 1st October 2015 would have been set as the implementation date of the modification 519 solution.

Since the principles of the modification 519 solution have essentially been agreed, but it is now not possible to bring forward the implementation of the IT solution, GasTerra believes that it is self-evident that it is appropriate to implement this modification 560, which applies the same principles as modification 519, but in a 'manual workaround' form, i.e. by correcting allocations for User's energy balancing invoices rather than providing a correction to daily allocations in Gemini.

In summary, GasTerra supports this modification because it will manually correct for the under-allocation until the permanent IT solution is implemented, thereby correcting for the loss of value which will otherwise be experienced by BBL Users during that period.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

It is appropriate that this modification should not be a self-governance modification since it has a material impact on Users.

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

GasTerra wishes to see the modification implemented as soon as possible, consistent with its urgent status, so that National Grid can proceed with applying the correction as soon as possible after the decision date.

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

National Grid has agreed to develop and implement the solution, and as such, provided the modification is implemented, GasTerra would not face any further costs.

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

Yes, the legal text delivers the intent of the Solution

Additional Workgroup Question for this Consultation:

Are any of the Ofgem conditions for retrospectivity satisfied? (see the Appendix in the Workgroup Report for details)

Although it would appear from Ofgem's guidance that it is only necessary to satisfy one of the criteria, GasTerra considers that all of the conditions for retrospectivity are satisfied in this case, as further described below:

- 1) *'A situation where the fault or error giving rise to the additional costs or losses was directly attributable to central arrangements.'*

In this context, Gemini and the arrangements for nominations matching and allocations at IP's constitute 'central arrangements', in the sense that they are process elements which are not within the direct control of any individual User and are provided centrally to serve the industry as a whole.

The issue which gives rise to the loss is the under-allocation which results when nominations matching and allocate-as-nominate rules are applied in a situation where the reference conditions are not aligned.

Once the IT solution for modification 519 is implemented in Gemini, it will no longer be an issue.

2) *'Combinations of circumstances which could not have been reasonably foreseen.'*

The problem is an unanticipated commercial outcome of the implementation of nominations matching and allocate-as-nominate rules before the implementation of the solution for harmonised reference conditions. This particular effect of this specific combination of circumstances was not foreseen by ENTSOG or ACER, or the EC, which set the implementation date for the Interoperability Code after the implementation date of the Balancing Code. It could not have been reasonably foreseen by Users since, as Ofgem noted when modification 519 was implemented, it was expected to be addressed in the Interconnection Agreement and it only became clear at a later stage that this would not be the case.

3) *'Where the possibility of retrospective action had been clearly flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.'*

The potential issue was identified on implementation of modification 519 in June and quantified in a presentation to Industry of the BBL Interconnection Agreement in July. Users publicly raised the issue at the Transmission workgroup in August and National Grid agreed to work with affected Users to help them develop a solution. GasTerra developed the modification (with support from National Grid) during September and it was formally raised in advance of the 1st October. The modification stated that it was intended to be effective from 1st October. In this way, the possibility of retrospective action was clearly flagged to industry.

It should also be noted that this was an exceptionally busy period of preparation for new arrangements for the whole industry.

GasTerra therefore believes that retrospective action is justified, when considered against each of the three criteria set out in Ofgem's guidance, in this case.

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 BBL is implementing 0/25 reference conditions as part of its EU required changes (Why Change? p3). In fact BBL has always operated 0/25 reference conditions, as discussed in the workgroup meeting. It is the application of nominations matching and allocate-as-nominate rules where reference conditions are not aligned which produces the under-allocation, as further explained on page 4.

The 'Solution' summary section of the workgroup report on p3 could be more specific about the impact of the under-allocation, although details are provided in the full description at p7. The under-allocation will contribute to a User's imbalance position, and it is this effect which this modification seeks to address (consistent with the principles agreed in modification 519). The proposed solution operates by correcting the

UDQI/UDQO (i.e. allocations) figures which are used to determine a User's energy balancing charges as set out on pages 7-8.

NB: These comments are provided by way of additional explanation of the workgroup report, but do not impact GasTerra's view of the issues or the solution otherwise provided in this response.

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

GasTerra proposed that this modification should be treated as urgent, but as set out for the Modification Panel meeting on 15th October and the Transmission Workgroup meeting on 5th November, it believes that this proposal should be both urgent and retrospective. In its' view, this modification meets the criteria for retrospective application, but it does not believe that urgent treatment negates the need for retrospective application, since this would undermine the value of the rule change, particularly because it would apply for a limited transitional period only. In addition, as noted above, GasTerra considers that it is self-evident that the change should be made, because modification 519 has already been implemented, and this further supports the case for retrospective application.

The potential for increased risk of Energy Balancing Credit exposure (and potentially inappropriate application of credit sanctions) was identified in the workgroup. GasTerra considers that since:

- the daily under-allocation is a very small percentage of each User's flow;
- the modification addresses the issue on a monthly basis;
- only a relatively small number of Users are affected (the BBL Users);

this means that the additional risk in this case is sufficiently small not be a material concern. It also notes that implementation of this modification would be the best way to address such risk. The monthly adjustment of invoices is the earliest operational opportunity to deal with it, in the absence of the modification 519 IT solution.

It should also be noted that this modification is targeted at BBL Users, and the solution is ringfenced to the correction of energy balancing invoices and neutrality. As such, there are no impacts for other Users.