

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:	Phil Hobbins
Organisation:	National Grid NTS
Date of Representation:	16 th November 2015
Support or oppose implementation?	Support
Relevant Objective:	d) Positive g) Positive

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

National Grid NTS agrees with the views of some industry participants that the issue that Modification 0560 seeks to resolve is sufficiently material to those parties to warrant resolution via a UNC Modification. Following the identification of this issue and alerting the industry to it, National Grid NTS has been keen to understand the impact on industry parties and has worked with worked with the Proposer both prior to and during the development of this Modification.

National Grid NTS supports implementation of this Modification because in our view it represents a pragmatic and proportionate solution to the effect on some Users caused by the temporary lack of alignment in the reference conditions used for nominations (and, by default, allocations) at the BBL Interconnection Point. This Modification is also closely aligned in its effects to Modification 0519, the principles of which have already been subject to industry consultation and Ofgem approval. Whilst the impact of the 'under-allocation' explained in this Modification will have different effects on a User's imbalance position for a Day depending on its aggregate portfolio and whether the User has a UDQI or UDQO in respect of the BBL IP, National Grid NTS considers that where a User's position is distorted it would be corrected by the methodology proposed.

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

National Grid NTS agrees that this should not be a self-governance modification because it would have a material effect on commercial activities connected with the shipping of gas.

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

If Ofgem approves this Modification, National Grid NTS considers that it should be implemented on the day following such decision.

We expect Ofgem's decision to be made after the date on which balancing neutrality charges are calculated and processed for the month of October 2015. Therefore, if this Modification is approved, the earliest time at which the first adjustments would be processed would be in December 2015. In this event, such adjustments would be made in respect of the months of both October and November 2015 and would appear on invoices issued to Users in early January 2016, for which the legal text makes provision.

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

National Grid NTS will need to allocate resource to perform the recalculation of the relevant Users' imbalances and to send that data to Xoserve for processing prior to invoices being issued for each relevant month. National Grid NTS would not typically perform such manual processes to deliver UNC Modification solutions, however we have taken the decision to do so in this case because the associated development and ongoing costs are expected to be negligible and the time period is limited.

National Grid NTS would not face any analysis costs in respect of this Modification.

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

Yes.

Additional Workgroup Question for this Consultation:

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

Ofgem's guidance contemplates particular circumstances that could give rise to the need for a retrospective change which could include:

- A situation where the fault or error giving rise to additional costs or losses was directly attributable to central arrangements;
- Combinations of circumstances that could not reasonably have been foreseen; or
- Where the possibility of a retrospective action had been clearly flagged to participants in advance, allowing the detail and process of the change to be finalised with retrospective effect.

National Grid NTS considers that in the case of this Modification:

- the definition of 'central arrangements' could include Gemini functionality and the UNC arrangements for reference conditions. Analysis presented during the development of this Modification suggests that Users active at the BBL IP would face additional costs as a result of a difference between these arrangements and those applicable for the BBL side of the IP.
- National Grid NTS first raised the issue that this Modification seeks to address in its representation for Modification 0519 and subsequently discussed the potential impact for Users active at the BBL IP in July 2015. National Grid NTS communicated its intention not to raise a Modification but to work with any party that wished to do so in early August 2015. We therefore consider that it would have been difficult for affected Users to have foreseen the issue and that there was insufficient time for a Modification to be raised, appropriately developed and implemented prior to 1st October 2015.

- The prospect of action to resolve the issue was flagged to the industry in advance of 1st October 2015 and this Modification was raised proposing a degree of retrospective action prior to this date.

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.*

In the 'Why Change' section of the Summary, the Modification Report states "BBL is implementing 0/25 reference conditions as part of its implementation of EU-required changes to the nominations process at the Interconnection Point (IP), whereas National Grid NTS is not implementing this requirement until 01 May 2016."

The first part of this sentence is inaccurate because BBL has always operated to 0/25 reference conditions, therefore we would suggest that this would be better written as:

"The EU Interoperability Code mandates shipper nominations at Interconnection Points (IPs) to be submitted and matched at 0/25 reference conditions from 01 May 2016. The GB regime will change to meet this requirement on 01 May 2016, however BBL has always operated to these reference conditions and continues to do so following the introduction of the new matching and allocation arrangements on 01 October 2015".

(The 'Why Change' section in the main body of the Modification Report is accurate).

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

National Grid NTS notes that the Workgroup has discussed the appropriateness of the retrospective aspect of the solution and we would like to take this opportunity to make clear our position.

In general, National Grid NTS does not support Modifications which seek to make changes to the commercial regime retrospectively because they undermine regulatory stability and market confidence. However, in the case of this Modification, we believe that retrospectivity may be relevant because:

- the issue and the possibility of a Modification with application from this date had been discussed in advance with the industry;
- it was raised prior to the date on which it proposes to take effect from; and
- it would, in effect, implement a temporary solution that delivers equivalent outcomes for Users active at the BBL IP as the enduring solution for GB to manage the common units required by the EU Codes under Modification 0519 that was proposed by National Grid NTS and has been approved by Ofgem.

We would also note in respect of this Modification that:

- the period of retrospectivity would be partial; the majority of its application would be prospective;
- the period of retrospectivity is minimised due to the urgent timescales under which it is being progressed; and
- we are not aware that industry parties would have taken any different decisions or engaged in different transactions since 1st October 2015 if it is approved.