

UNC Final Modification Report		At what stage is this document in the process?
<h1>UNC 0703S:</h1> <h2>Correction to Modification 0698S 'Improvements to Margins Notice Arrangements'</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>To correct an error in the LNG methodology calculation that was introduced by Modification 0698, 'Improvements to Margins Notice Arrangements'</p>		
	Panel consideration is due on <b>01 November 2019</b> <i>(at short notice by prior agreement)</i>	
	High Impact:	
	Medium Impact:	
	Low Impact: GB Gas Market Participants, National Grid NTS	

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Timetable			 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>
<b>Modification timetable</b>			Other:
Modification presented to Panel	17 October 2019		
Draft Modification Report issued for consultation	17 October 2019		
Consultation Close-out for representations	25 October 2019		
Final Modification Report available for Panel	28 October 2019 (short notice)		
Modification Panel decision	01 November 2019 (extraordinary)		

## 1 Summary

### What

Modification 0698S 'Improvements to Margins Notice Arrangements' introduced a new methodology for determining the contribution of LNG to Expected Available Supply. One component of this methodology currently requires that:

- National Grid NTS shall determine a quantity of 'usable stock' for each LNG Importation Facility by subtracting a minimum inventory from the prevailing stock level at that facility; and
- The minimum inventory is to be determined by subtracting an assumed level of boil off gas from the lowest stock level that has been observed at each LNG Importation Facility within the last three Gas Years.

Modification 0698S should have stated that the boil off gas should be added to this lowest stock level to determine the minimum inventory.

### Why

This Modification is needed to correct the above error in the methodology for determining the LNG contribution to the level of Expected Available Supply. If the change is not made, then the LNG number calculated from this part of the methodology will generate spurious outcomes that are inconsistent with the expectations of the 0669R Workgroup<sup>1</sup>.

### How

Amend UNC TPD Section V5.9.9(a) to state that the minimum inventory level for each LNG Importation Facility shall be determined by adding the relevant boil-off volume to the lowest stock level observed during the past three Gas Years instead of subtracting it.

## 2 Governance

### Justification for Fast Track Self-Governance

This Modification proposes to change one word in UNC to ensure that the changes introduced to the determination of Expected Available Supply by Modification 0698S operate as intended and as previously communicated to the 0669R Workgroup. It should therefore be considered as a self-governance Modification since it will not have a material impact on consumers, competition, operation of the pipeline systems, matters relating to sustainable development, safety or security of supply, the management of market or network emergencies, governance procedures, and will not discriminate between different classes of parties to the UNC.

In addition, National Grid NTS considers that this is a housekeeping Modification required as a result of an error in the 0698S LNG methodology. The correction will ensure that the LNG methodology operates as it was envisaged in the 0669R Workgroup.

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<sup>1</sup> 0669R developed proposals which were subsequently implemented by Mod 0698S

It is therefore proposed that this Modification follows the fast-track self-governance procedure.

### Requested Next Steps

The UNC Panel did not consider this Modification to continue as a Fast Track Modification, therefore this modification should:

- be considered a non-material change and subject to self-governance
- proceed to Consultation

## 3 Why Change?

Modification 0698S 'Improvements to Margins Notice Arrangements' was implemented by the August 2019 UNC Panel with effect from 19 September 2019. Among other things, 0698S introduced a new methodology that had been developed in the previous 0669R Workgroup for National Grid NTS to determine the contribution of LNG to Expected Available Supply on each Day during winter. This LNG value is to be set for each Day during winter equal to the 95<sup>th</sup> percentile of LNG flows into the NTS over the past three Gas Years or an aggregate usable LNG stock for that Day, whichever is the lesser. This was designed such that the former would apply when LNG stocks are high and the latter when stocks are low.

Modification 0698S requires the calculation of usable stock at each LNG facility to be determined by subtracting a minimum inventory from the prevailing stock level. In turn, the minimum inventory is to be determined by subtracting an 18 day boil off estimate from the lowest stock level that has been observed at each LNG facility within the past three Gas Years. (18 days was considered to be the potential duration of an LNG voyage).

The subtraction of the boil-off estimate is an error in the methodology that National Grid NTS has recently discovered. Modification 0698S should have stated that the boil off estimate should be added to this lowest stock level; the rationale being that the lowest stock level observed at each LNG facility in the last 3 Gas Years is regarded as the minimum operational reserve and that the facility would receive a cargo before it reached that level again.

National Grid NTS produced analysis for the 0669R Workgroup showing the number of Margins Notices that would have been triggered if the methodology had been in place in previous years. This analysis (link provided below) was produced by adding the boil off component to the minimum stock level rather than subtracting it.

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-06/0669R%20-%20Review%20of%20MN%20%26%20GDW%20Arrangements.pdf>.

If this change is not made, then National Grid NTS would be obliged under UNC to implement an LNG calculation methodology that would operate differently to what the 0669R Workgroup understood to be the case. It would have the effect of inflating the contribution of LNG to Expected Available Supply and thereby making it less likely that Margins Notices would be issued at times of system stress. Based on LNG stocks at the end of September 2019, it would also create two anomalies:

- (i) the calculation of minimum inventory for one of the LNG Importation Facilities would be negative; and
- (ii) the aggregate usable stock would exceed the total stock of LNG.

## 4 Code Specific Matters

### Reference Documents

A link to the 0698S Final Modification Report is provided which sets out the complete LNG methodology calculation. [https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-08/Final%20Modification%20Report%200698S%20v2.0\\_0.pdf](https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-08/Final%20Modification%20Report%200698S%20v2.0_0.pdf)

### Knowledge/Skills

No specific knowledge or skills are required to assess this Modification because it seeks to correct a small part of a Modification that has already been implemented.

## 5 Solution

Amend the determination of the MSTL<sub>d</sub> component of the calculation of the LNG Expected Available Supply in UNC TPD Section V5.9.9 such that 18 days' worth of boil off gas at each facility is added to (rather than subtracted from) the lowest volume of gas which has been held in stock at that facility at any time up to and including 15 September in the current Gas Year and in each of the two previous Gas Years.

## 6 Impacts & Other Considerations

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

None.

### Consumer Impacts

The Modification will enable the consumer benefits identified in Modification 0698S to be realised.

### Cross Code Impacts

None.

### EU Code Impacts

None.

### Central Systems Impacts

None, because no changes to central systems were required to implement Modification 0698S.

## 7 Relevant Objectives

### Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	<b>Positive</b>

<p>b) Coordinated, efficient and economic operation of</p> <p>(i) the combined pipe-line system, and/ or</p> <p>(ii) the pipe-line system of one or more other relevant gas transporters.</p>	<p><b>Positive</b></p>
<p>c) Efficient discharge of the licensee's obligations.</p>	<p><b>Positive</b></p>
<p>d) Securing of effective competition:</p> <p>(i) between relevant shippers;</p> <p>(ii) between relevant suppliers; and/or</p> <p>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.</p>	<p>None</p>
<p>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.</p>	<p>None</p>
<p>f) Promotion of efficiency in the implementation and administration of the Code.</p>	<p>None</p>
<p>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.</p>	<p>None</p>

National Grid NTS considers that this Modification would better facilitate the same relevant objectives that were identified within the 0698S proposal:

- a) Efficient and economic operation of the pipe-line system.
- 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.

This Modification is designed to enhance the value of information provided to Users of the Total System by providing greater clarity in respect of the expected balancing position (between gas supply and gas demand) on the relevant Gas Flow Day. An enhanced method of assessing LNG supplies (to inform the Margins Notice position) will provide a clearer and more accurate picture of the overall supply / demand position and enable the market to respond more efficiently, limiting the need for National Grid NTS to intervene in the market as residual balancer and thereby enabling the system to be operated more efficiently.

Given that the balancing position that is communicated is in respect of the Total System, limiting the need for National Grid NTS to intervene in the market represents a more efficient outcome for the *combined* pipe-line system as a whole.

**c) Efficient discharge of the licensee's obligations.**

Provision of an enhanced level of information to Users of the Total System enable the market to respond more efficiently to the overall supply / demand position is consistent with National Grid's licence obligation under Standard Special Condition A17(1) to "*act in a reasonable and prudent manner in the operation of the pipe-line system ... in so far as such operation may affect the operation of the pipe-line system of any other relevant gas transporter*".

## 8 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

## 9 Legal Text

### Text Commentary

Paragraph	Explanation
UNC TPD Section V5.9.9(a)	The amendment requires National Grid NTS to increase (instead of reduce) the minimum stock value by the amount of boil-off gas that could be expected over an 18 day period.

### Text

#### Transportation Principal Document, Section V, General

Amend paragraph 5.9.9(a) as follows:

“5.9.9 For the purposes of the Code:

- (a) ...  $US_d$  means the aggregate of the usable stock at each LNG Importation Facility for the Gas Flow Day which is equal to:

$$US_d = SL_d - MSTL_d$$

where:

$SL_d$  means the aggregate volume of gas in stock in the tanks of each LNG Importation Facility for the relevant Gas Flow Day as it is notified to National Grid NTS by the facility's Delivery Facility Operator; and

$MSTL_d$  means National Grid NTS's determination of the aggregate of an amount of gas in respect of each LNG Importation Facility which is equal to the lowest volume of gas which has been held in stock at that facility at any time up to and including 15 September in the current Gas Year and in each of the whole of the previous two Gas Years, provided that (i) such lowest volume of gas shall be ~~reduced~~ **increased** by the amount which National Grid NTS reasonably believes would have boiled off over the following 18 days at that facility; and (ii) where the value determined for that facility for the purposes of this  $MSTL_d$  calculation exceeds the value so determined for the period commencing at 05:00 on 1 October 2019 and ending at 05:00 on 1 April 2020, the value so determined for the period commencing at 05:00 on 1 October 2019 and ending at 05:00 on 1 April 2020 shall apply; and(...)”

## 10 Consultation

Panel invited representations from interested parties on 17 October 2019. The summaries in the following table are provided for reference on a reasonable endeavours' basis only. It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Implementation was unanimously supported in the 2 representations received.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
National Grid NTS	Support	a) Positive b) Positive c) Positive	<ul style="list-style-type: none"> <li>• Supports this proposal to correct an error in the methodology for determining the LNG contribution to the level of Expected Available Supply.</li> <li>• Believes if the change is not made, then the LNG number calculated from this part of the methodology will generate spurious outcomes that are inconsistent with the expectations of the 0669R Workgroup and the 0698S Modification, which has already been implemented.</li> <li>• Believes that this is a self-governance Modification for the reasons stated in the Draft Modification Report.</li> <li>• Agrees that implementation could be 16 business days after a Modification Panel decision to implement, subject to no appeal being raised.</li> <li>• Understands the Modification will enable the benefits identified in Modification 0698S to be realised. No changes to central systems are required.</li> </ul>
Northern Gas Networks	Support	a) Positive b) Positive c) None	<ul style="list-style-type: none"> <li>• NGN support this proposal and believe it should further Relevant Objectives a) and b) as correction of the calculation term "reduced" to "increased" in Transportation Principle Document (TPD) Section 5.9.9 (a)(ii) should ensure accurate usable stock calculations are performed at LNG Importation Facilities for the Gas Flow Day.</li> <li>• Believes this proposal should follow Self-Governance procedures as this proposal is only looking to correct an inconsistency in a defined term within the original Modification 0698S.</li> <li>• Agrees that implementation could be 16 business days after a Modification Panel decision to implement, subject to no appeal being raised.</li> <li>• No impacts and costs have been identified as a result of this proposal.</li> </ul>

			<ul style="list-style-type: none"><li>• Believes that the Legal Text provided will deliver the Solution set out in the proposal.</li></ul>
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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

## 12 Recommendations

### Panel Determination

Members agreed:

- that Modification 0703S should **[not]** be implemented.