

SYSTEM MANAGEMENT PRINCIPLES STATEMENT

Version 3.2 2013

Part D - section 4 - Residual system balancing

To maintain the safe and efficient operation of the Total System, National Grid NTS, in its role as a residual system balancer, will enter into various trades with Users via the OCM (and/or OTC). In undertaking this role National Grid NTS will, where necessary, accept all economic and efficient offers on the OCM/OTC. In assessing the economics and efficiencies of a particular offer, National Grid NTS will consider whether the combination of quantity, price and timing of that action is likely to result in a scaleable, positive impact on the supply-demand imbalance for the Gas Day (or days) that are being assessed.

Where all information available to National Grid NTS indicates that supplies into the NTS are at, or very close to, the anticipated maximum available, then National Grid NTS may be more likely to favour taking offers on the OCM Physical or Locational markets rather than OCM NBP Title market offers, since National Grid NTS considers that in such circumstances these actions are more likely to produce a required direct physical effect.

Price versus volume

In the unlikely scenario that a small volume offer is priced significantly higher than other offers for a Gas Day, then National Grid NTS would still include that offer in any assessment of an Eligible Balancing Action. However, National Grid NTS believes that it is prudent, economic, efficient and appropriate in relation to the legislative framework to accept offers in price-order and therefore it is unlikely that in a fully functioning and liquid market such small volume, high-price 'isolated' offers would be accepted.

Minimum threshold volume

National Grid NTS believes that the minimum sized Market Balancing Action likely in itself to have a discernible impact on the total system imbalance position is approximately 3 GWh. Therefore, Market Balancing Actions intended to have a more immediate and tangible impact on the total system imbalance are likely to be in excess of 3 GWh. Such Market Balancing Actions might consist of multiple trades including 'minimum volume' bids/offers of 100,000 kWh.

The smallest bid/offer volume of gas capable of being posted by Market Participants is 100,000 kWh. A bid/offer of this size is not likely in itself to have a discernible impact on the total system imbalance position but it would be accepted by National Grid NTS where it considers this to be economic and efficient in accordance with its Licence obligations.