

Modification proposal:	Uniform Network Code (UNC) 121 and 130: The provision of Ex-post Demand Information for (all) NTS Offtakes		
Decision:	The Authority ¹ directs that modification proposal 121 be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	20 April 2007	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Following the implementation of UNC modification proposal 006³ there has been a significant increase in information availability and transparency regarding gas supplies into the GB wholesale market. At present, there is not the same level of transparency surrounding gas demand. Recently, a number of modifications have been raised to address transparency of gas demand⁴.

This letter considers UNC modification proposal 121 ("Modification 121") and UNC modification proposal 130 ("Modification 130") that are seeking the provision of demand information at National Transmission System ("NTS") exit points⁵. These proposals are mutually exclusive in that their intent could not be given full effect if both were implemented. We have therefore considered these proposals to be effectively alternative proposals, despite not being formally considered as such under the UNC modification rules.

The modification proposals

Modification 121 was raised by EDF Energy in October 2006 and Modification 130 was raised by E.ON UK in January 2007. Both proposals represent an increase in the amount of information that would be available to the market, with the key difference between the proposals being the level of aggregation at which NTS offtake information is reported.

Modification 121

Modification 121 seeks the publication of the previous day's physical gas flows from the NTS by individual exit point. The previous day's total physical flows would apply to each individual storage site, power station, interconnector, NTS connected industrial load and individual exit point into each LDZ. It is proposed that the information be published on National Grid's information exchange website by 12.00pm on the following gas day ("D+1").

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ Mod 006 was implemented on 3rd October 2006. In a bid to increase market efficiency it required National Grid Gas NTS Plc to publish the volume of gas supplied to each eligible sub-terminal of the NGG NTS transportation network close to real time. UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters' website at www.gasgovernance.com

⁴ Modification 97/97a sought the release of information regarding pipeline interconnector offtake flows. Modification 101 sought an amendment to demand forecasting timings in relation to the Gas Balancing Alert and Modification 88 sought the implementation of AMR meters to help commercial and industrial customers to manage their gas consumption during times of system stress. See www.gasgovernance.com

⁵ Due to their similarities, Modifications 121 and 130 are considered together in this letter

Modification 130

Modification 130 is effectively an alternative to Modification 121 as it also seeks the publication of the previous day's physical flows from the NTS, but divided into four specific categories:

- (i) aggregated ex-post LDZ offtake flows;
- (ii) aggregated ex-post power generation offtake flows;
- (iii) aggregated ex-post storage sites offtake flows; and
- (iv) aggregated ex-post industrial load offtake flows⁶.

It is proposed that this information will be published on National Grid's website by 11am on D+1.

The majority of the information noted above is already published via the Gemini meter list. However, NTS supply point information is only available to registered users and not to all market participants. Demand data on NTS/LDZ offtakes is currently published in aggregate form on the NTS website at D+1, available to all market participants.

Those parties in support of the proposals believe the modifications would better the facilitation of relevant objectives (a) and (c) as set out in Standard Special Condition A11 (1) of the Gas Transporters Licence⁷ as follows:

Relevant Objective (a) – the efficient and economic operation of the pipe-line system to which this licence relates. Both Modification 121 and Modification 130 would provide industry parties with appropriate levels of information to enable them to forecast better demand and make more appropriate trading decisions. This would also reduce the volume of balancing actions required of National Grid as residual system balancer.

Relevant Objective (c) – so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence. Modification 121 and Modification 130 would allow parties improved access to information on gas demand. This may allow better informed decisions regarding levels of demand side response, potentially reducing price volatility. These improvements in the efficiency of decision making by participants may also reduce the volume of balancing actions undertaken by NG as residual balancer. An improved understanding of demand side response could also lead to improvements in security of supply.

UNC Panel⁸ recommendation

Both proposals were discussed at the UNC Modification Panel (the "Panel") meeting held on 15 March 2007. The recommendation from the Panel following this meeting was for Modification 121 not to be implemented and Modification 130 to be implemented.

⁶ Note that Modification 130 does not propose to publish 'aggregated ex-post interconnector offtake flows' as this information will be published under accepted UNC Modification Proposal 097A, due for implementation on 01 October 2007.

⁷ This Licence Condition can be viewed at: http://62.173.69.60/document_fetch.php?documentid=6547

⁸ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

The Authority's decision

The Authority has considered the issues raised by both modification proposals and both the Final Modification Reports (FMRs) dated 16 March 2007. The Authority has also considered and taken into account the responses to the Joint Office's consultation on the modification proposals which are attached to the FMR⁹. The Authority has concluded that:

1. taken in isolation, the implementation of either **Modification 121 or Modification 130** would better facilitate the achievement of the relevant objectives of the UNC¹⁰ but that of these, **Modification 121** would best facilitate those objectives; and
2. directing that **Modification 121** be made is consistent with the Authority's principal objective and statutory duties¹¹.

Given the above, the Authority has therefore decided not to direct the implementation of Modification 130.

Reasons for the Authority's decision

Ofgem considers that both Modification Proposals 121 and 130 impact on the facilitation of relevant objectives (a) and (d) of the UNC most significantly. We have set out below the reasons why we believe that Modification 121 would better facilitate the achievement of these objectives.

Relevant Objective (a) – the efficient and economic operation of the pipeline system to which this licence relates

Both Modification 121 and Modification 130 seek to ensure that additional demand data is available to all market participants to assist in achieving greater accuracy in their demand forecasting activities. In line with the views of a number of respondents, we believe this will be beneficial as it will allow market participants to be better able to balance their portfolios subsequently reducing the role of NGG in balancing the total system.

We also consider that customers who are better informed about the level of gas offtake from the NTS (and hence able to forecast demand more accurately) are likely to be better prepared to provide demand side response at times of high wholesale gas prices. As a consequence, the overall balance of the system is likely to be improved, particularly at times of system stress. This is likely to further improve NGG's ability to operate the system on an efficient and economic basis.

A number of respondents opposed to Modification 121 disagreed with these points. One respondent questioned whether the publication of the information proposed by Modification 121 would be of use to parties downstream of a Shipper. This respondent highlighted that Shippers (through the Gemini system) already have access to information that would assist in demand forecasting and hence balancing activities. As

⁹ UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹⁰ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://62.173.69.60/document_fetch.php?documentid=6547

¹¹ The Authority's statutory duties are wider than matters, which the Panel must take into consideration and are detailed in the Gas Act 1986.

such, they considered that publication of further disaggregated information relating to gas offtake was unnecessary.

It is our view that, although registered users of the Gemini system may already have access to certain information on gas offtakes from the NTS, this information is not currently available to other market participants and is in aggregated form. As noted above, we consider that customers who are better able to forecast demand and understand levels of demand side response will be better prepared to respond to high prices and assist the system in times of stress.

We note that some respondents questioned the value of offtake flow information to consumers, particularly its use at the daily operational level and when disaggregated to the level proposed by Modification 121. While we understand that the value of this information will differ among market participants, we consider that it is open to individual parties to choose how they use this information in their commercial decisions.

We would also note that, as was the case with UNC 006, the potential exists for third parties to collate and analyse the information released under Modification 121 and provide the analysis, as a service, to market participants that would value it. We consider this may also have significant benefits in terms of any costs associated with collating and analysing the data, as they would be incurred voluntarily by those market participants who sought to understand better market fundamentals in order to make more informed trading decisions.

Although we consider that these benefits would be delivered to an extent by Modification 130, it is our view that the enhanced granularity offered by Modification 121 will provide market participants with a significantly better understanding of the nature of wholesale gas demand. This is likely to enable participants to make even more informed trading and purchasing decisions than under Modification 130. As such, we consider that Modification 121 better facilitates relevant objective (a) and does so significantly more than Modification 130.

Relevant Objective (d) – so far as is consistent with relevant sub-paragraphs (a) to (c) the securing of effective competition between relevant shippers, suppliers and DNs

We consider that the provision of ex-post physical flow information from NTS offtakes proposed by Modification 121 will promote effective competition between shippers, suppliers and DNs by providing all market participants with equal access to information some of which is currently available only to registered users of the Gemini System. In this respect, by creating a level playing field and improving access to information, all market participants will be able to make more informed purchasing decisions allowing them to compete more effectively within the market.

While we recognise that Modification 130 goes some way in providing the market with equal access to physical flow information, Modification 121 addresses the existing imbalance in access to gas offtake information (compared to gas supply data) more effectively through the provision of disaggregated data. In this respect, we consider that Modification 121 better facilitates relevant objective (d) and does so more than Modification 130.

Effects on competition in the generation and I&C markets

We recognise the concerns raised by a number of respondents who considered that implementation of Modification 121 may potentially result in the distortion of competition in the generation and Industrial and Commercial (I&C) markets. These respondents noted that while NTS connected sites would have physical demand data published publicly on a disaggregated basis, DN connected sites have their offtake flows published on an aggregated basis as part of the LDZ offtake flows already published on National Grid's website.

In terms of the generation market, we note the concerns of one respondent who considered that the information released under Modification 121 would discriminate between NTS and DN connected Combined Cycle Gas Turbine ("CCGT") generators. This respondent was concerned that, when used in conjunction with the near to real time information on demand and supply information already publicly available for each individual generation unit on the BM website¹², individual offtake flow information could enable station efficiencies and degradations to be determined by the market.

Although we recognise that the granularity of data published under Modification 121 could make the calculation of station efficiencies and degradations simpler, we consider that there is potentially enough information available in the market to be able to understand some efficiencies already. As such, we consider it unlikely that the release of data under Modification 121 would be detrimental to competition to any significant extent. Further, we would also note that there are only a very small number of CCGT generators who fall outside the remit of this proposal as DN connected sites. On balance, we therefore consider that the potential costs associated with this are small in comparison with the overall benefits of enhanced transparency to the gas market.

In terms of I&C sites directly connected to the NTS, we recognise the concerns raised by a number of respondents who considered that publication of disaggregated data for these sites could be potentially discriminatory (relative to DN connected I&C sites and competitors who do not have this information published to the same degree). These respondents considered that knowledge of a downstream producer's level of gas consumption could be used by competitors to understand the level and pattern of that site's final output leaving them commercially exposed.

While recognising these concerns, we would like to note the absence of any response from the I&C sector confirming the materiality of this issue on their businesses. We would also draw attention to the one response received from a customer representative which stated that they "fully support the maximum disclosure of information within the gas industry and therefore support the implementation of 121". We note the view held by this respondent that, while recognising that DN connected sites and individual producers do not at present have their data published to the same degree as NTS connected sites, the next stage may be to consider publication of data in these areas moving forward.

It remains our view that the level of aggregation proposed by Modification 130 is not appropriate for the reasons we have mentioned above. However, we would note that in the event that any market participant considered that the level of information granularity

¹² Final Physical Notification (FPN) is published for each BM Unit indicating the level of generation or demand that a BMU Trader expects to generate or consume. See <http://www.bmreports.com>

offered by Modification 121 may have an effect on their commercial position, it is for the industry to consider whether it is appropriate to propose further modifications in this respect. In developing any such modification proposal, we would remind parties that quantitative evidence supporting modification proposals is particularly helpful to the Authority when assessing whether such proposals better facilitate the achievement of the relevant objectives of the UNC.

Further, we would note that while we would not accept any modification that released data disaggregated to a level which is shown to have implications because of its commercial sensitivity, we do believe that this level of disaggregation may potentially differ by market. We continue to rely on market participants to help guide us on these issues.

We would also highlight that the information proposed for release under both modification proposals is on an ex-post basis. We believe that publication of the data after the Gas Day will to an extent mitigate a number of the risks around the potential exposure of commercially sensitive information as the data will only be beneficial in a historic capacity.

Therefore, while we consider that both proposals will better facilitate the achievement of relevant objectives (a) and (d) we consider that Modification 121 better facilitates the achievement of those objectives overall.

Wider Statutory Duties

We agree with those respondents who considered that publication of offtake flow information under Modification 121 may have significant improvements in terms of gas security of supply. This is because under Modification 121, parties would gain a more detailed understanding of gas flows on the NTS, potentially leading to more efficient purchasing decisions and in turn more efficient balancing actions by NGG.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 121: *'the provision of ex-post demand information for all NTS Offtakes'* be made.

Though no implementation date has been specified for this proposal, we are aware that there may be overall cost savings in implementing Modification 121 jointly with Modification 097a, due to be implemented on 1 October 2007, given the areas of overlap between both proposals. As we noted in the decision letter for 097a, we acknowledge that this implementation date is set late in the year. However, historically, the summer period is not as critical for demand forecasting and it should be noted that information regarding aggregate end of day NTS and LDZ offtake flows is currently available D+1 on National Grid's website. Bearing this in mind, we note that it is for the Joint Office and NGG to confirm the appropriate implementation date going forward.

Yours sincerely



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Signed on behalf of the Authority and authorised for that purpose.