

Modification Report
Introduction of a Gas Balancing Alert
Modification Reference Number 0062

Version 3.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because this Proposal accorded with the "guidelines for granting urgency status to a modification proposal." In particular, Ofgem noted that the objective of these Proposals (ie this Proposal and Proposal 0061 "Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered") was to "further ensure that efficient and economic balancing actions might be considered, following the triggering of a proposed *Gas Balancing Alert*, prior to, and potentially avoiding or mitigating, a Network Gas Supply Emergency." Further, Ofgem considered that if the Proposals "were treated as non-urgent, they would not be in a position to be decided upon and, if appropriate, implemented ahead of the high demand period for this 2005/06 winter."

Procedures Followed:

The procedures agreed with Ofgem for this Proposal are:

Sent to Ofgem requesting Urgency	01/11/2005
Ofgem grant Urgent status	02/11/2005
Transmission Workstream discussion	03/11/2005
Proposal issued for consultation	07/11/2005
Closeout for representations	21/11/2005
FMRs issued by Joint Office	24/11/2005
Modification Panel Recommendation	01/12/2005
Ofgem decision expected week commencing	05/12/2005

1. The Modification Proposal

The Proposal was as follows:

"Defined Terms. Where UNC defined terms are included within this Proposal the terms shall take the meaning as defined within the UNC. Key UNC defined terms are highlighted by an asterisk (). This Proposal, as with all Proposals, should be read in conjunction with the prevailing UNC.*

The Winter Outlook Report published recently by National Grid NTS, highlighted the importance of demand response in maintaining the balance of the Total System* during periods of high demand. Concern has been raised at forums such as the Ofgem chaired Demand Side Working Group, that certain

major gas consumers or groups of consumers would be willing to be interrupted if National Grid NTS (or another body independent from Users) signalled that there was a higher likelihood of demand side response being required in order to help support the Total System* and avoid entering a NGSE.

The Proposal is that National Grid NTS will issue a GBA during D-1 when the System demand forecasted at 14:00 hours or 02.00 hours for Gas Day D, that identifies *Forecast Total System Demand is greater than or equal to the anticipated available supplies. The anticipated available supplies shall be adjusted to remove the contribution from the various types of storage as the storage stock levels get to within two days (at maximum withdrawal rates) of the applicable Safety Monitor* for each Storage Facility Type*. Once issued, the GBA would remain in place for the duration of the Gas Day* regardless of any subsequent notification of available supplies or change in forecasted demands.

There is an additional option that National Grid NTS believes could be considered by the interested parties during the consultation period for this Proposal. This option is that the GBA may also be issued within the Day* if;

- (a) there is an incident or event notified to National Grid NTS that in its reasonable opinion, was anticipated to result in an end of day loss of available supplies of 25 mcm or greater, and;
- (b) the end-of-day loss subsequently results in the remaining anticipated available supplies as being less than or equal to the Forecast Total System Demand*.

This option might be included in the implementation of this Proposal and to this end, National Grid NTS would seek to discuss the option in a UNC Transmission Workstream during the consultation period.

National Grid NTS would also appreciate respondent's views on this additional option in their representations to this Proposal.

National Grid NTS believes that the attendees at the DSWG and Transmission Workstream consider that the GBA would act as a signal to Users and major gas consumers that there is a higher likelihood of demand response being required. It also could be used by Users and consumers as a trigger, within their gas supply contracts, to allow the User to interrupt the consumer, thereby releasing the gas that would have otherwise been used to supply this consumer, to be offered to the market and to aid the balance of the Total System."

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The Proposer considered that this Proposal, if implemented, may better facilitate the following relevant objective as set out in its GT Licence:

"In respect of paragraph 1.a): National Grid NTS considers that this Proposal may improve *"the efficient and economic operation of the pipe-line system"*. The Proposal could facilitate consumers and Users in working together to provide demand reduction to the market at the time when the Total System most requires it.

In respect of paragraph 1.e): National Grid NTS considers that this Proposal might improve *“the 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”* by increasing the information available to industry parties thereby facilitating a timely response to secure sufficient supplies to meet demands.”

(The full names of respondent organisations are set out in Section 11 of this report.)

BGT disagreed stating it did not *“believe that it furthers the relevant objectives of an efficient and economic operation of the pipeline system or the provision of incentives for relevant suppliers”* because it did not believe *“provides a workable solution in its current form.”*

Many respondents agreed that implementation would better facilitate the achievement of relevant objectives although a number of parties gave qualified support for implementation of the proposal.

GdF and NG UKD specifically suggested implementation of the proposal would, in addition to those identified by the Proposer, better facilitate objective d).

GdF felt implementation would aid *“effective competition between shippers and suppliers by defining a uniform trigger which can be referenced in supplier to customer supply contracts.”*

NG UKD stated it should *“assure effective competition between shippers, thereby meeting the requirements of SSCA11 1(b) and 1(d)(i) and would be in the interests of consumers”*.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Proposer suggested that by encouraging demand response and signalling, in advance (D-1), there would be a higher likelihood of such a requirement, implementation "would facilitate end consumers and Users to prepare for and plan to reduce their gas consumption thereby enhancing the security of supply on the Total System."

The Proposer in its response also stated *“the GBA will act as a signal that demand reduction is more likely to be required and will assist the industry in taking appropriate actions to minimise the risk of a Network Gas Supply Emergency (NGSE).”*

AEP, CIA, Corus, EdF, EON, GdF, NG UKD, RWE, SGD, SGN, STUK, TGP expressed agreement with the Proposer, drawing attention to both the Winter Outlook Report (WOR) which indicated the importance of demand side

response in a tight supply/demand situation, and also the work of the Ofgem chaired Demand Side Working Group (DSWG).

Examples from representations that echo the Proposer were as follows.

AEP stated *“It is vital that all industry participants have access to timely information on the status of the system presented in a user-friendly manner.”*

EdF believed that *“the issuing of a GBA will provide a useful market signal that demand-side response is needed when there is a risk that supplies will not satisfy demand.”*

EON anticipated that *“that a Gas Balancing Alert (GBA) may trigger demand side response when the system is tight.”*

GdF stated, *“The introduction of an alert system ahead of a potential or actual gas deficit emergency gives end users the opportunity to respond by offering their gas to the market ahead of emergency curtailment. The demand side can have a significant contribution towards maintaining a safe supply demand margin at peak winter periods and should be incentivised to participate within a suitable market framework.”*

NG UKD stated that information such as the GBA *“is an important device in ensuring that the market is able to make the most appropriate response to a potential supply shortage. As a result, the market should operate more efficiently in the knowledge that a GBA had been issued, (rather than speculate about the supply situation), and consequently, by taking steps to avoid a National Gas Supply Emergency, the system should operate more efficiently through the period of high demand than would be the case without the information.”*

SGD believed that *“introduction of a GBA will provide additional information to customers who may be willing to turn down their gas consumption in order to contribute to system security and ensure that emergency interruptions are avoided.”*

BGT, Corus, Exxonmobil, MLCE expressed concerns or qualifications.

BGT was concerned that *“many large consumers may have some difficulty in providing a demand side response with a notice period of less than 24 hours in order to make arrangements to cease taking gas”, and CIA whilst supporting the proposal stated they “would prefer a signal with more notice if possible”.*

Corus, whilst it offered qualified support, stated that industrial firm load was *“relatively stable throughout the year and easily forecastable. It is the least likely participant in the market to contribute to any sudden supply demand emergencies.”*

Exxonmobil expressed the concern that *“a de-minimus volume may trigger an Alert at D-1 which will then stay in place for the whole of the relevant Gas Day,*

no matter how the supply/demand situation changes” and asked, “what impact posting of a GBA may have on the market when National Grid puts itself in the position of a distressed buyer as opposed to a residual balancer and whether it is able to meet its objectives of economy and efficiency in such circumstances.”

MLCE expressed a concern that *“the GBA is an estimate of system stress that does not take into account (unknown) contractual flexibility elsewhere on the system, and does not consider the overall current state of the system. As a gross measure it may provide a broad indication, but cannot replace a proper analysis of supply demand fundamentals.”*

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

The Proposer suggested that by facilitating the preparation for demand response prior to it being required, implementation of this Proposal would "enable end consumers who are unable to respond at short notice periods, to participate in the market, thereby improving the security of supply on the Total System."

Respondent's views on this are expressed mainly in sections 3 and 11.

b) development and capital cost and operating cost implications:

The process for publishing the GBA on a web site has been implemented as part of National Grids Daily Summary Report (<http://www.nationalgrid.com/uk/Gas/Data/dsr/>).

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No requirement for cost recovery has been identified.

d) analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences have been identified.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Implementation of the Proposal would create an obligation on National Grid NTS to publish a GBA, when relevant.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

Publication of a GBA went live on 15 November 2005 on National Grid's web site.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

The Proposer suggested that this Proposal, "if implemented, should make Users processes, for accessing demand response and communicating with their customers a requirement for demand response, more efficient."

Many respondents expressed agreement with the Proposer.

NG UKD believed that *"implementation of this proposal goes some way to establishing an information flow that provides shippers with the information they need to allow supply / demand decisions to be made."* It also suggested, *"where there is sufficient demand side activity to prevent the further deterioration of monitor levels, information to this effect should be conveyed to the market. This would not have to necessarily mean the lifting the GBA, (as shipper initiated interruption may, for contractual purposes, require this to be left in place), but, nevertheless, the information feed-back loop needs to be closed so that the market participants can assess their position and ensure that excessive demand curtailment is not effected. It is also important to ensure that the market is aware that a GBA has had the desired effect to allow the market to react accordingly."*

Section 11 of this report provides more of the views expressed about Period of effect or withdrawal of a GBA.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

The introduction of greater efficiency in communicating the need for demand response would potentially improve operational efficiency of a number of participants within the gas chain.

The Proposer in its response stated it believed that the GBA *"could be used by Users and consumers as a trigger, within their gas supply contracts, to allow the User to interrupt the consumer, thereby releasing the gas that would have otherwise been used to supply this consumer to be offered to the market and to aid the balance of the Total System."* It also stated that *"inclusion of the GBA within the UNC will provide both Users and end-consumers with greater*

certainty and might therefore lead to the increased likelihood of demand response being offered through the market” and inclusion in the UNC would “also ensure that changes to the basis on which a GBA might be published could not be made without a full industry consultation process.”

energywatch observed that implementation would “*allow the issue of a new alert notice ... on a day ahead basis to inform all interested parties where total gas demand for the following day is likely to be higher than available supplies, including stored gas.*”

EON stated “*The GBA may also be used as a contractual trigger to initiate demand side response when the system is tight, potentially averting a gas emergency.*”

GdF stated “*The introduction of an alert system ahead of a potential or actual gas deficit emergency gives end users the opportunity to respond by offering their gas to the market ahead of emergency curtailment. The demand side can have a significant contribution towards maintaining a safe supply demand margin at peak winter periods and should be incentivised to participate within a suitable market framework.*”

RWE noted “*that as the GBA is an alert and not an instruction then there is merit in keeping the arrangements simple and unambiguous, reflecting customer requirements as discussed at the DSWG. This is particularly important where the GBA is incorporated as a trigger within supply contracts. This simplicity of approach will clarify the response expected by different market participants.*”

SGD qualified its support expressing the concern “*that these changes may not have been introduced sufficiently early for customers to consider the impact and how to respond. However, this proposal can only improve information to customers and the industry*”

TGP providing qualified support to the implementation of the proposal and stated “*The relatively simple methodology proposed, for triggering a GBA, should also facilitate confidence and overcome any perceived information asymmetry amongst consumers in relation to the likely requirement for demand side response during these periods. Hence we recognise the mutual benefits of being able to agree amendments to the supply contracts with our customers and effectively use the notification of a GBA as a trigger for demand response.*” TGP stated concerns and suggested a Supplier obligation:-

- “*Little time remains, before the onset of full winter conditions, to agree the contractual amendments necessary to give full effect to the above.*”
- “*Given the importance of these arrangements to the continued safe and secure operation of the NTS, TGP consider that default demand response provisions should be in place. ... we believe that the commercial realities of individual suppliers attempting to insist upon demand side response*”

provisions whilst maintaining relative industry competitiveness should not be ignored. Hence in our view a GBA supplier lead approach is likely to be most effective when it also forms part of a common license obligation upon suppliers to agree demand response arrangements. This requirement may also encourage suppliers and end-users to enter into other forms of commercial demand response arrangements.”

MLCE expressed its main concern to be that the introduction of a GBA “*may be viewed as a sufficient measure of market transparency when we believe that further information is required by active market participants. We would be disappointed if the GBA were viewed as a proxy for providing better information*”

Global Insights observed that “*when storage stock levels in LNG storage and Medium Range Storage are above the ‘safety monitor+2 days’ level it is much less likely that Gas Balancing Alerts will be issued*”. It asked whether consideration had been given to “*making gas balancing alerts (or a milder form of Gas Balancing Alert) when supply excluding LNG and MRS is less than demand? This should lead to more GBAs being issued and encourage more demand side response. I note that the Winter Outlook talks about 40 or 50 days of DSR, i.e. DSR being used often than MRS and LNG. More frequent GBAs may help industry with their negotiations with the Environment Agency.*”

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Respondents indicated that impacts upon the contractual relationships between End Users and Shippers were expected and views are detailed elsewhere within this Report.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

The Proposer identified the following advantages and disadvantages of implementation.

Advantages

"National Grid NTS believes that the DSWG and attendees of the Transmission Workstream consider that the provision of a Gas Balancing Alert as detailed in this Proposal will provide an additional signal to Users and end consumers, in a timely fashion, that demand response is likely to be required in order to maintain the balance of the Total System. If implemented the GBA would provide a potential additional trigger for Users and major gas consumers to initiate appropriate demand side reductions."

Disadvantages

"The GBA signals a higher likelihood that the Residual Balancer may be required to complete Eligible Balancing Actions* and may therefore be considered as a distressed buyer. This may in turn lead to a resetting of trade

offer prices and therefore lead to greater balancing costs and higher System Clearing Charges*."

AEP expressed specific agreement with the Proposer, and in respect of the disadvantage it considered *"that if the GBA is appropriately defined then the system is in a distressed state and if the GBA brings forward offers of gas that help to address this then the physical state of the system should take priority over commercial concerns, although clearly the prices of offers may be subject to scrutiny after the event."*

Separately, the Proposer identified the following advantages and disadvantages of implementing the within Day GBA option

"Advantages of the within Day GBA option

If Users and gas consumers utilise the GBA as a trigger, within their gas supply contracts, for offers of demand side response to be made, then the Total System may be prevented from accessing this demand response prior to a NGSE (Stage 1) being declared unless National Grid NTS is able to trigger a GBA within Day. This option allows National Grid NTS to trigger such a GBA and therefore access these demand side offers.

Disadvantages of the within Day GBA option

Significant within day events are already signalled to Users via the Active Notification System (ANS)*. ANS messages are published on the National Grid NTS web site, a within Day GBA would duplicate this process and may therefore be considered to be of little additional value.

Several consumer representatives at the DSWG and Transmission Workstream have stated that for many major consumers a within day signal would be of little use as several hours notice are required in order to reduce gas usage in a controlled and safe fashion."

Respondents' views on the Within Day GBA option are summarised in section 11 of this Report.

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following:

Association of Electricity Producers	(AEP)	Support
APX Gas Limited	(APX)	Support
British Gas Trading Limited	(BGT)	Not in support
Chemical Industries Association Limited	(CIA)	Support
Corus	(Corus)	Qualified support
energywatch	(energywatch)	Support
Edf Energy plc	(EDF)	Support
E.ON UK plc	(E.ON)	Support
ExxonMobil	(Exxon/Mobil)	Qualified support
Gaz de France ESS (UK) Ltd	(GDF)	Support
Global Insight	(Global Insight)	Support
Merrill Lynch Commodities (Europe) Trading Ltd	(MLCE)	Qualified support
National Grid NTS	(NGNTS)	Support
National Grid Gas plc (UK Distribution)	(NGUKD)	Qualified support
RWE npower plc	(RWE)	Qualified support
Scotia Gas Networks	(SGN)	Qualified support
Shell Gas Direct	(SGD)	Qualified support
Scottish and Southern Energy	(SSE)	Qualified support
Statoil (UK) Limited	(STUK)	Support
Total Gas and Power Limited	(TGP)	Qualified support

Basis of Anticipated Maximum Supply

Several respondents asked for clarification in respect of the Anticipated Maximum Supply used for the GBA trigger.

In its representation TGP made a specific suggestion on this. “Despite the advantages associated with the relatively simple approach proposed for triggering the notification of a GBA, we note the base-case data from the Winter Operations Report (WOR) is relatively static and that a NGSE may arise from circumstances that are not captured by the methodology. TGP therefore consider that the application of limited discretion by NGG, such that a GBA may be issued within or before the gas day to ensure system conditions do not deteriorate to the extent that a NGSE occurs, to be appropriate. We would expect this discretion to only be exercised in situations where the information underpinning their decision is credible and verifiable, for example a major loss or expected reduction in capability of the offshore infrastructure effectively negating the supply assumptions within the WOR.”

Similarly AEP accepted that “it may not be helpful to be overly rigorous in the definition of anticipated maximum daily supply, since if this simply were the value listed in the WOR this would be too prescriptive and could lead to a GBA not being issued in some circumstances when forecast demand exceeds forecast supply and demand side response is clearly required. We would therefore suggest that National Grid uses the information it has available to it to determine the anticipated maximum daily supply and uses the notes field on the

daily summary report to explain when this is not the number indicated in the WOR even if a GBA has not been issued.”

GBA Timing prior to the Gas Day

There was a range of views about timing prior of GBAs prior to the Gas Day

AEP observed, *“The legal text makes no mention of the time by which an Alert will be issued.... It may be helpful operationally if alerts were posted by a fixed time.”*

Similarly RWE stated that *“a GBA should only be at predetermined times on D-1.”*

BGT was concerned that *“many large consumers may have some difficulty in providing a demand side response with a notice period of less than 24 hours in order to make arrangements to cease taking gas”*

Similarly CIA whilst supporting the proposal stated it *“would prefer a signal with more notice if possible”*.

Corus stated a preference *“for a clear GBA signal and discretion for NG NTS in calling that GBA. We had hoped the two modifications released by NG NTS would at least give an option of mainly mechanistic or mainly discretionary, reaching a semi-solution with a set of rules that were clear but allowed for some flexibility.*

We would have preferred an option for NG to use it’s considerable operating experience to make these calls.”

EdF stated *“it is not clear whether NG can also issue a GBA at say 6pm D-1 when they receive extra day ahead information or whether they would have to wait for the 02:00hrs window of opportunity. We believe that NG should have the ability to issue a GBA as soon as it is in possession of information that warrants so and therefore should not have to wait until the next available time.”*

SSE queried why a GBA would only be issued following D-1 forecasts observing *“This seems to rather limit the potential of the GBA to provide triggers/signals to the market as we understood the primary objective of the GBA is to provide that signal. Furthermore, NG NTS will be looking at the supply/demand situation constantly and would, we have thought, not wish to be so restricted in its ability to issue the GBA, particularly when the GBA need not necessarily trigger or oblige NG NTS to actually take any balancing action itself.”*

Within Day GBA

The Proposer in its representation noted *“there was little support for this within-day option at both the UNC Transmission Workstream and the DSWG”* but awaited written representations regarding this option in its proposal, but

additionally stated that it “sought views on this option through the Modification Process... unless the majority of responses support a within-day GBA National Grid NTS will not seek to modify the Proposal to include this option”

AEP, Corus, EON, GdF, SSE and SGN expressed support for a Within Day GBA, and resistance was expressed by CIA, SGD and RWE. Two other parties provided comment (Exxonmobil and energywatch).

EON stated “Whilst the majority of, if not all, customers would be unlikely to be able to offer demand side response within day, we cannot see any disadvantage to the system through having a GBA within day. A within day GBA would likely correspond to a rapidly occurring gas emergency, with no time to for customers to offer demand side response but at the very least, a within day GBA would ensure both customers and shippers are made aware of a situation, as soon as possible.”

GdF stated “the option of including an adjustment to the trigger level related to a significant supply side event within day. It is important that there is a signal to encourage demand side participation to compensate for supply side failure, otherwise there would be a progression straight to an emergency and any possible demand side reduction would have been missed. Contribution from demand side may be reduced within day due to a reluctance to give up gas at short notice however there is a strong incentive for interruptible customers to sell back their gas and recover costs ahead of interruption in a potential gas deficit emergency.”

Similarly Corus stated *“We can see no good reason for National Grid not using it’s wider discretion in releasing a within day GBA if without it the likelihood of a gas emergency was increased.”*

AEP expressed support because “CCGTs may be able and willing to reduce or curtail offtake in shorter periods and certainly within day. Even if some consumers do not consider themselves able to respond we do not accept that a GBA should not be issued within day. The intent of a GBA is to provide a signal to consumers and shippers that demand side response is required even if time is short. Clearly if it is necessary for an Alert to be issued within day this potentially represents a rapidly deteriorating situation that all parties should be made aware of as soon as possible. To only alert Shippers via ANS would effectively be behaving in a discriminatory manner and withholding information from part of the market, that part most able to help the situation. To this end we effectively perceive the issuing of a GBA to be Stage 0 of a monitor breach gas deficit emergency.” Finally AEP stated “Clearly the absence of a within day GBA could limit certain plant offering demand side response which would increase the likelihood of a gas emergency.”

SSE stated it believed “this would be appropriate” and “We note with interest comments that a within day signal would be of little use to major consumers as the preference is for several hours’ notice, or even day ahead notice in order that they might provide demand side response. This is not the case for all parties and we do not believe that this should preclude NG NTS from issuing a

GBA within day. Clearly if a GBA is required within day this potentially represents a rapid deterioration of the supply/demand situation that parties should be made aware of as soon as possible.”

Exxonmobil commented “As far as within day GBA posting is concerned we would prefer a process where publication times are fixed in advance or where there is an ANS alert provided in conjunction with posting of the GBA alert on the National Grid website.”

energywatch commented that it “understands that National Grid may require an additional option of ‘within-day’ balancing where it is anticipated that supply may be particularly tight. Whilst we are supportive of the availability of more flexible options to National Grid closer to real time, we would be concerned about whether many users would be able to respond in the relevant timescales. We do not, however, rule out this option as it may be possible for certain users to agree balancing actions for short notice periods. These users should not be denied a route to market.”

RWE expressed resistance to a Within Day GBA because “there are problems with defining a suitable trigger and it is not clear that it will lead to greater demand-side response in any case.”

CIA stated “At the moment we are not in support of a within day GBA option “as we believe that any issues can be signalled through the Active Notification System (ANS) which will appear on NGG's website.”

In opposition SGD stated “it does not consider that the implementation of a within day GBA would be helpful. Most customers prefer to turn down gas in an orderly manner as can be effected by a D-1 GBA as well as better information at D-2 and earlier on the outlook for the system. We are also concerned that the implementation of a within-day GBA could have the impact of create a degree of "panic" in the market, undermining orderly conduct.”

The SME has contacted the Proposer to obtain clarity regarding intention to include or remove the Within-day GBA option from this Modification. The Proposer has confirmed that as it would appear that the majority of Respondents have indicated a preference for a Within-Day GBA, this option has been included within the Legal Text for this Proposal.

Period of effect or withdrawal of GBA

SSE observed that “It would appear under this proposal that the GBA would not be revoked and would therefore remain in force for the duration of the Gas Day, irrespective of any subsequent change in the overall supply/demand position” and that “such an approach would appear to be limiting the information available to the market.”

AEP expressed the view that there was inadequate explanation as to why, “once the GBA is issued it remains in place for the Gas Day regardless of any change in forecast supply or demand”. It went on to suggest that an alternative approach

could be *“for the GBA to persist until it is withdrawn. This could help to avoid the need for multiple renominations and the provision of potentially misleading DN nomination information to National Grid Gas which may be submitted by 13:00 D-1 on the assumption that a GBA is no longer in place for the following day only to change if the GBA is confirmed to be in place for the following day after the demand forecast at 14:00 on D-1.”*

Also AEP stated it understood that *“NGG are concerned that if the GBA were to be withdrawn within day then there could be a ‘see-saw’ effect – which we understand to mean that demand could then increase which could require the GBA to be re-issued. We consider that as gas is traded as an EOD quantity and incentives to balance will remain in place via the cashout prices set then we are not sure that this would be a logical consequence of the withdrawal of the GBA, rather that any increase in demand would be matched by increased supplies.”*

Exxonmobil expressed the concern that a *“a de-minimus volume may trigger an Alert at D-1 which will then stay in place for the whole of the relevant Gas Day, no matter how the supply/demand situation changes”* and asked, *“what impact posting of a GBA may have on the market when National Grid puts itself in the position of a distressed buyer as opposed to a residual balancer and whether it is able to meet its objectives of economy and efficiency in such circumstances.”*

Effect on gas prices

AEP noted that following the issue of a GBA *“the prices of [demand side] offers may be subject to scrutiny after the event”*.

MLCE felt that *“If a GBA is issued, we would expect that the sell side of the market will initially reduce in activity as the GBA is a strong buy signal and the price outcomes are less certain.”*

Corus expressed the view on demand side response to a GBA for some consumers that, *“given that the alternative is enforced firm load shedding with no compensation, any price at which we reluctantly ‘agree’ to interrupt is highly unlikely to compensate us for the full loss of manufacturing and hence is not truly ‘priced’ as a gas market mechanism.”*

Post event reporting and post winter review

CIA expressed a wish for *“an appropriate reporting mechanism after every GBA through the Gas Operational Forum.”*

GdF stated, in the context of National Grid discretion *“It is important ... that there is a clear audit log maintained and an after the event process for National Grid to explain it’s decisions to Users and customers. This could be done via the customer and/or shipper forums and should cover each instance that a GBA has been issued.”*

Corus advocated, *“non-routine decisions [should be] assessed subsequently if required at the ... regularly convened Operations Forum.”*

EON stated that, *“Whilst we appreciate the work undertaken to achieve ‘quick wins’ for this winter, we remain of the opinion that a holistic approach is needed for future winters to assess all the many factors which contribute to ensuring security of supply in the UK. This might involve taking another look, with the hindsight of the experience of this winter, at GBAs.”*

MLCE it could *“only support the introduction of a GBA if there is some continual assessment of its value for indicating actual balancing problems, and if there is an indication that its introduction does not mitigate the need to improve information transparency in the UK market.”* MLCE also stated *“The quality of the [GBA] measure could only be tested over time”*.

Process

Many respondents commended the work of Ofgem chaired DSWG but several parties expressed some concern about urgent modifications.

AEP expressed concern that *“issues of importance for this winter have not been addressed earlier in the year and are now being considered in urgent timescales as we are already in the winter period.”*

GdF expressed the concern that *“there has been a suite of urgent modifications raised recently which highlight risks in the regime which apparently were not highlighted earlier.”* However *“We believe that piece meal modifications such as this one will not disrupt the regime significantly so close to winter.”*

BGT commented *“it is very late in the year to be considering changes to the operational processes affecting continuity of supplies over the winter months. Whilst we support the principles of the objectives of these modifications, it is not in the best interests of the industry to be dealing with changes of this nature at this time.”*

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

14. Programme for works required as a consequence of implementing the Modification Proposal

Publication of a Gas Balancing Alert on National Grid's web site commenced 15th November 2005.

APX stated that it was "working with National Grid NTS towards the introduction and operation of a Gas Balancing Alert (GBA), via the OCM's Locational Market. It is expected that this will be available by 5th December 2005".

TGP stated that "Little time remains, before the onset of full winter conditions, to agree the contractual amendments necessary to give full effect" ... "to agree amendments to the supply contracts with our customers and effectively use the notification of a GBA as a trigger for demand response."

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

The Proposer has suggested that this Proposal be implemented immediately.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No such implications have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel Meeting held on 1 December 2005, of the 9 Voting Members present, capable of casting 10 votes, 9 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL
DOCUMENT**

SECTION V - GENERAL

Insert the following as new paragraphs 5.9.3, 5.9.4, 5.9.5 and 5.9.6

- “5.9.3 National Grid NTS shall issue (by means of publication on its website) an alert (a “**Gas Balancing Alert**”) where, after forecasting demand for a Gas Flow Day in accordance with Section H 5.2.3 on the Preceding Day, the Forecast Total System Demand for the Gas Flow Day in question is greater than or equal to the Forecast Total System Supply for such Gas Flow Day.
- 5.9.4 National Grid NTS may issue (by means of publication on its website) a Gas Balancing Alert where during a Gas Flow Day, an incident is notified to National Grid NTS that would (in the reasonable opinion of National Grid NTS) reduce the Forecast Total System Supply for that Gas Flow Day by at least twenty five (25) MCM per Day and the remaining Forecast Total System Supply for that Gas Flow Day is less than or equal to the Forecast Total System Demand.
- 5.9.5 Where a Gas Balancing Alert is issued, it shall remain in force until the end of the Gas Flow Day to which it applies.
- 5.9.6 For the purposes of the Code:
- (a) “**Forecast Total System Supply**” means the anticipated maximum daily supply to the Total System for the Gas Flow Day in question plus the sum of the quantity of gas that could be withdrawn from each Storage Facility Type and delivered to the Total System on such Gas Flow Day without breaching the relevant Two Day Monitor Level; and
 - (b) “**Two Day Monitor Level**” means, in respect of a Storage Facility Type, a quantity of gas equal to the Safety Monitor for that Storage Facility Type plus the quantity of gas that could be withdrawn from that Storage Facility Type in two (2) Days at the maximum withdrawal rate applicable to that Storage Facility Type.”

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :