

**REVIEW GROUP TERMS OF REFERENCE**  
**CODE REVIEW PROPOSAL No 0291**  
**NTS Licence Special Condition C27 – Balancing Arrangements**  
**Version 0.3**

**Date:** 07/05/2010

**Background**

In February 2010 Ofgem published its Final Proposals Consultation on the National Grid Gas System Operator Incentives effective from 1 April 2010.

Within the Final Proposals Consultation, Ofgem has proposed that a new Special Condition C27 be included within the NTS Licence to oblige National Grid Gas (NTS) to firstly develop, and possibly implement, a linepack product, and secondly, to introduce updated cashout values.

Paragraphs 1 and 3 from the Final Proposals Consultation document are as follows;

*1. The licensee shall use reasonable endeavours to:*

*(a) develop in consultation with shippers and interested parties (including the Health and Safety Executive) a gas linepack product by 1 April 2011 and shall report to the Authority on the conclusions of such development and consultation by 1 May 2011; and*

*(b) if directed by the Authority, take appropriate steps to implement a gas linepack product by 1 October 2011 in accordance with the conclusions set out in the report required by paragraph 1(a) of this condition.*

and

*3. The licensee shall use reasonable endeavours to introduce updated values of the “System Marginal Buy Price” as such term is defined in Section F 1.2.1(a)(i) of the licensee’s network code as at 1 April 2010 and the “System Marginal Sell Price” as such term is defined in Section F 1.2.1(b)(i) of the licensee’s network code as at 1 April 2010, by 1 April 2011 in consultation with shippers and other interested parties.*

**Scope and Deliverables**

The Review Group shall focus on changes to the UNC.

The following items are included within scope of the group:

1. Linepack Product;
  - Overview of NTS linepack (what, why... etc)
  - Review of historic linepack usage and end-of-day forecast accuracy
  - Review of linepack products employed by other gas transporters
  - Development of potential options
  - Analysis of options, including;
    - Commercial mechanisms

- Interaction with SO Incentives
  - DN interaction
  - Charging implications
  - IS system impacts
  - Costs and Benefits
  - ROM/DCA of preferred option
2. Cashout;
    - Overview of system prices and UNC Section F including current SMP Buy & SMP Sell calculations
    - Review of system ‘cashout’ mechanisms employed
    - Development of potential options
    - Analysis of options
    - ROM/DCA of preferred option
  3. Analysis of possible interactions between possible linepack product and cashout differential values
  4. Recommendations, including;
    - Preferred option(s)
    - User Pays aspects
    - Draft Modification Proposals with recommendations on progression

## **Limits**

The Review Group will focus on developing recommendations and UNC Modification Proposals that efficiently address any issues identified in a proportionate and cost effective manner. The Review Group will consider changes required to procedures and processes within UNC. It will not develop changes for non-code processes but may request reports from parties who can influence changes with the appropriate industry body.

The Review Group is to be mindful of related industry obligations, processes:

1. UNC;
2. Flow of information;
3. Licence and Legal obligations.

## **Composition of Review Group**

This Review Group is open to all. To ensure the best possible outcome from meetings is it recommended that attendees have an understanding of the current balancing arrangements of the UNC.

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

## **Timescales**

Meetings will be booked and administered by the Joint Office and conducted in accordance with the Chairman’s Guidelines. Although the frequency of meetings will be subject to

review and potential change by the Review Group it is suggested that the initial frequency of the meetings be monthly, as set out in Appendix A.

The timescales for the review will need to take into consideration the dates stated within Licence Condition 27. With reference to a target implementation date of April 2011 for the cashout review, it is proposed that 4 review group sessions will take place over a 4 month period. After this period the Review Group conclusions and recommendations will be submitted to the September Modification Panel and facilitate the development of one or more potential Modification Proposals.

## **Appendix A: Workplan**

### **Meeting One – 06 May 2010**

Agree Terms of Reference and Workplan

### **Meeting Two – 21 May 2010]**

Linepack Product

- Overview of NTS linepack (what, why... etc)
- Review of historic linepack usage and end-of-day forecast accuracy

Cashout

- Overview of system prices and UNC Section F including current SMP Buy & SMP Sell calculations
- Review of system ‘cashout’ mechanisms employed

### **Meeting Three – 21 June 2010**

Linepack Product

- Review of linepack products employed by other gas transporters
- Development of potential options
- Analysis of options, including;
  - Commercial mechanisms
  - IS system impacts
  - Potential impact on SO Incentives

Cashout

- Review of system ‘cashout’ mechanisms employed
- Development of potential options
- Analysis of options, including;
  - Commercial mechanisms
  - IS system impacts
  - Potential impact on SO Incentives

### **Meeting Four – [ ] July 2010**

Linepack Product

- Refine options
- Consider interactions with Cashout Fixed Differential options

Cashout

- Refine options
- Consider interactions with Linepack Product options

Draft Review Group Report

### **Meeting Five – [ ] August 2010**

Finalise Review Group Report, including recommended Modification Proposals