

**Review Group Report**  
**Review Proposal Reference Number 0291**  
**NTS Licence Special Condition C27 - Balancing Arrangements**  
**Version 1.0**

This Review Group Report is presented for the UNC Modification Panel's consideration. National Grid NTS indicated to the Review Group that it intended to bring forward Modifications to take forward consideration of the areas under review. The Review Group considers that Modifications provide the appropriate mechanism for taking the issues forward.

## **1 Review Proposal**

National Grid NTS raised Review Proposal 0291, NTS Licence Special Condition C27 - Balancing Arrangements, (available at [www.gasgovernance.co.uk/0291](http://www.gasgovernance.co.uk/0291)). The agreed Terms of Reference for the Review are attached below as Annex 1.

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 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 values to the cashout fixed differentials.

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.*

A Review Group was therefore proposed by National Grid NTS to develop possible options and produce recommendations for a linepack product and updated cashout fixed differentials in response to the obligations stated in Special Condition C27.

## **2 Review Process**

In accordance with the Modification Rules, at its meeting on 15 April 2010, the Modification Panel determined a Review Group should be formed to consider this Proposal. A workplan was agreed at the initial meeting, and the Review Group met on six occasions. All papers in support of the meetings are available at [www.gasgovernance.co.uk/0291](http://www.gasgovernance.co.uk/0291). This Review Group Report was compiled by the Joint Office and approved by Review Group attendees.

## **3 Areas Reviewed**

The following items were identified in the Terms of Reference as being included within scope of the group, and a summary of the discussions has been provided under each heading:

1. Linepack Product;

- Overview of NTS linepack (what, why... etc)  
*National Grid NTS outlined the role of linepack from a system operator perspective, explaining how it arises and is used.*
- Review of historic linepack usage and end-of-day forecast accuracy  
*National Grid NTS provided data on historic linepack usage and indicated variations in Projected Closing Linepack (PCLP) compared to the outturn. It was recognised that PCLP is an arithmetic calculation which reports information received by National Grid. As such, it is not a forecast and hence the variations seen between PCLP and actual closing linepack were not the result of forecasting error.*
- Review of linepack products employed by other gas transporters  
*National Grid NTS outlined the Dutch and Belgian offerings of linepack products, and the IUK linepack service.*
- Development of potential options  
*National Grid NTS focused on a park and loan service, whereby Shippers would be able to access linepack on a gas day, with the quantity involved being taken into account when establishing their imbalance position. On the following gas day, the transaction would be reversed. Draft Business Rules in support of this approach were presented by National Grid NTS and refined in light of the feedback received. The Group indicated that they were not convinced there would be sufficient benefits to justify the costs of implementing this approach, especially if the volume available was limited and only made available at National Grid NTS's discretion. National Grid NTS indicated its intent to bring the park and loan approach forward as a Modification, and the Group agreed that further development and analysis should be based on that Modification.*
- Analysis of options, including;
  - Commercial mechanisms  
*The Group believed the mechanisms for releasing the proposed product should be as simple as possible, ensuring they were commensurate with the product on offer.*
  - Interaction with SO Incentives  
*While outside the scope of the UNC, it was accepted that it would be logical for the present linepack incentive to be removed were the proposed product to be introduced. While some attendees did not consider it appropriate for National Grid NTS to be rewarded for making linepack available, others felt this would be necessary to help ensure that appropriate behaviours and innovation were encouraged.*
  - DN interaction  
*Since the scope of the suggested product was NTS only, no direct DN interaction was identified. It was noted that the DNs would not be a user of the product.*
  - Charging implications  
*National Grid NTS indicated that supporting charging arrangements would be included as part of the intended Modification.*
  - IS system impacts  
*National Grid NTS indicated that systems impacts could not be reliably assessed until the Business Rules were firmer.*
  - Costs and Benefits  
*Neither costs nor benefits were quantified by the Group. National Grid NTS indicated that they would expect this to be considered as part of the development process for the Modification they intended to raise.*
  - ROM/DCA of preferred option  
*National Grid NTS indicated that a ROM would be provided once the*

*Business Rules were firmer.*

2. Cashout;

- Overview of system prices and UNC Section F including current SMP Buy & SMP Sell calculations  
*National Grid NTS outlined the processes embodied in the UNC and presented summaries of cashout and imbalance experience in recent years. It was agreed that there was no clear evidence that the existing arrangements were leading to inappropriate behaviours, and it was suggested that, if anything, Shipper balancing performance had improved in recent years.*
- Review of system 'cashout' mechanisms employed by other gas transporters  
*National Grid NTS indicated that most European regimes had a free tolerance based approach, similar to that which had applied previously in the Network Code. The market based Dutch model was also considered when potential options for change were discussed.*
- Development of potential options  
*National Grid NTS presented five alternatives to the present approach for setting default cashout values. These were refined in light of feedback from the Group.*
- Analysis of options  
*National Grid NTS presented criteria against which options could be assessed and an initial view of how each option rated against those criteria. The general view of the Group was that no compelling case had been made which would justify amending the existing values.*
- ROM/DCA of preferred option  
*The ROM analysis is reflected in Modification 0333, which National Grid NTS raised as its suggestion for modifying how cashout default values are established and updated.*

3. Analysis of possible interactions between possible linepack product and cashout differential values

*In addition to the options for setting cashout default values, National Grid NTS set out a hybrid option that sought to take account of interactions with the possible linepack product. This would seek to value linepack through applying a charge or cashout differential to a User's imbalance position that reflects the cost of using linepack to absorb the imbalance.*

4. Recommendations, including;

- Preferred option(s)  
*Attendees at the Group meetings did not believe that evidence had been presented that the existing cashout default values were creating inappropriate balancing behaviour or any other detriments. The majority also did not believe that compelling evidence had been presented that any change to the values would be expected to offer significant benefits, such that it would be difficult to make a case that implementation of a Modification would be expected to better facilitate achievement of the Code relevant objectives. Similarly the majority of attendees were not convinced that a case had been made for introducing a linepack product, with no clear evidence that the any benefits would be likely to outweigh the costs. While no preferred options for change were identified as a result of the Review process, National Grid NTS indicated their intent to raise Modification Proposals to allow full industry consideration through the standard modification process of both revised cashout default values and a potential linepack product. The Group agreed that this was an appropriate way forward.*
- User Pays aspects  
*National Grid NTS indicated that User Pays aspects would be covered within the Modifications that they anticipated raising.*

Draft Modification Proposals with recommendations on progression

*National Grid NTS are raising Modifications which will be developed as necessary through the standard modification process.*

#### **4 Recommendation**

The Group did not conclude that this review had identified deficiencies in the UNC that meant that a recommendation could be made in support of a Modification. However, it was recognised that potential Modifications could be assessed and developed on their own merits if any UNC party were to raise a Modification. National Grid NTS indicated that two Modifications would be raised to allow the process to continue. The Panel is therefore invited to accept this Report and close the Review process.

## **Annex 1: Terms of Reference**

### 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.*

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*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:

#### **2. 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

#### **3. Cashout;**

- Overview of system prices and UNC Section F including current SMP Buy & SMP Sell calculations
- Review of system 'cashout' mechanisms employed by other gas transporters
- Development of potential options
- Analysis of options
- ROM/DCA of preferred option

5. Analysis of possible interactions between possible linepack product and cashout differential values
6. 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 it is 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 by other gas transporters
- 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