

Modification proposal:	<b>Uniform Network Code (UNC) 101: Amendment to Demand Forecasting Timings in Relation to the Gas Balancing Alert</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	25 October 2006	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

Under the UNC, National Grid Gas NTS<sup>3</sup> (NGG NTS) must provide demand forecasts at 14.00 and 02.00 on the Preceding Day (D-1)<sup>4</sup> and at 12.00, 15.00, 18.00 and 21.30 on the Gas Day (D)<sup>5</sup>. Following implementation of Modification Proposal 061<sup>6</sup>, NGG NTS can issue a Gas Balancing Alert (GBA) where Forecast Total System Demand<sup>7</sup> is greater than or equal to the Forecast Total System Supply<sup>8</sup>. This provides an indication of possible tightness of gas supply and a potential opportunity for demand side response.

## The modification proposal

Modification Proposal 101 (the proposal) was raised by NGG NTS on 09 August 2006. NGG NTS notes that, in practice, it publishes demand forecasts more frequently on D-1 than required under the UNC, at 13.00, 16.00 and 00.00. The proposal therefore seeks to give NGG NTS more opportunities on D-1 to issue a GBA, where appropriate, following each regular demand notification<sup>9</sup>. NGG NTS states that the aim of the proposal is to:

- ensure that the UNC is consistent with NGG NTS's operational practices; and
- allow NGG NTS to notify a GBA, where appropriate, more regularly during the preceding gas day and in response to significant changes in the demand forecast.

NGG NTS considers that the proposal would improve the facilitation of relevant objectives (a), (e) and (f)<sup>10</sup> as follows:

- by allowing NGG NTS greater opportunities to issue a GBA;
- by increasing information to industry parties; and
- by ensuring consistency between operational practices and UNC obligations.

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

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

<sup>3</sup> National Transmission System

<sup>4</sup> See Section GT C2.2.1 of the UNC

<sup>5</sup> See Section H5.2.3 of the UNC.

<sup>6</sup> Modification proposal 061 ("Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered") was implemented on 15 December 2005. Ofgem's decision letter for modification proposal 061 located on <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/gasgovernance>

<sup>7</sup> See Section H5.2.6 of the UNC

<sup>8</sup> See Section V5.9.6 of the UNC

<sup>9</sup> At present NGG NTS can issue a GBA on two occasions during the Preceding Day consistent with the times at which it releases its D-1 demand forecasts as prescribed in the UNC. If approved, the proposal would increase the number of opportunities for NGG NTS to issue a GBA during the Preceding Day to three.

<sup>10</sup> As contained in Standard Special Condition A11 (1) of the Gas Transporters Licence. This Licence Condition can be viewed at: [http://62.173.69.60/document\\_fetch.php?documentid=6547](http://62.173.69.60/document_fetch.php?documentid=6547)

## **UNC Panel<sup>11</sup> recommendation**

At its meeting of 21 September 2006, the UNC modification panel recommended that this modification proposal be implemented.

## **The Authority's decision**

The Authority has considered the issues raised by the proposal and the Final Modification Report (FMR) dated 21 September 2006. The Authority has considered and taken into account the responses to the Joint Office's consultation on the proposal which are attached to the FMR<sup>12</sup>. The Authority has concluded that the proposal will better facilitate achievement of the relevant objectives of the UNC<sup>13</sup> and that implementation is consistent with the Authority's principal objective and statutory duties<sup>14</sup>.

## **Reasons for the Authority's decision**

We are of the view that the proposal impacts on the facilitation of relevant objectives (a) and (f) most significantly. For the avoidance of doubt, we have considered the merits of the proposal against all UNC objectives, however for the purpose of our decision we consider objectives (a) and (f) to be the relevant ones to explain in this letter.

### **Relevant Objective (a) – the efficient and economic operation of the pipe-line system to which this licence relates**

#### *NGG NTS's operation of the system*

The experience of a tight gas supply during winter 2005/06 has highlighted to all market participants the importance of having access to timely, good quality information. The proposal seeks to ensure that the market is informed of a potential supply deficit via a GBA as soon as NGG NTS is in receipt of forecast demand figures which indicate that it is appropriate to trigger a GBA, as opposed to the current situation where the times for information release are more prescribed.

We agree with the views of the majority of respondents who considered that more timely notification of GBAs would increase the opportunities for shippers to take necessary actions to secure demand side response in order to help bring demand and supply back into balance. We also consider that NGG NTS's responsibilities as residual balancer would be reduced if the proposal was implemented. In this respect, we believe that if market participants were alerted to potential system tightness earlier they would be better able to respond and balance their positions within day which would reduce the extent to which NGG NTS was required to take any residual balancing actions.

As such, we think that implementation of this proposal will allow market participants to make more informed commercial decisions and that this will assist the overall economic and efficient operation of the system. Further, by encouraging more timely commercial

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<sup>11</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>12</sup> UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>13</sup> 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](http://62.173.69.60/document_fetch.php?documentid=6547)

<sup>14</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed primarily in the Gas Act 1986.

decisions by customers, we believe implementation of the proposal could better help to prevent the occurrence of a gas deficit emergency, thereby facilitating the efficient and economic operation of the pipeline system.

### *Market volatility*

We note the views from several market participants who stated that inefficiencies may result from the proposal due to a lack of access to, and understanding of, the key data underpinning a GBA. These respondents considered that there was potential for the alert to be misinterpreted and result in market participants taking inappropriate actions which could lead to increased volatility in the market.

However, given that implementation of modification proposal 061 occurred in December last year, and having had experience of the GBA issued on 13 March this year, we consider that market participants have had sufficient time to familiarise themselves with the methodology for how a GBA would operate. We therefore think that parties should already be sufficiently aware of how the market arrangements work and that this knowledge should inform their trading decisions, allowing them to take informed commercial decisions in response to a GBA and avoid undue price volatility.

Further, we would note that the purpose of this proposal is to increase the number of times a GBA may be issued, not to introduce the ability to call a GBA itself. We therefore do not believe that this concern is relevant to our consideration of this proposal.

### *Duration of a GBA*

A number of respondents noted concern about the lack of a GBA cancellation mechanism. These respondents understood that the earlier a GBA was issued, the earlier the system would likely improve or correct itself as a result of subsequent demand side response. However, respondents noted that, despite any improvements in the demand and supply balance, the GBA would remain in place until the end of the Gas Day. In this context, one respondent considered that the proposal could lead to market over reaction; another respondent argued that the proposal could potentially dilute the effect of the GBA.

In our decision letter on modification proposal 061, we noted that while we understand "...the concerns of respondents regarding the GBA remaining in place for the duration of the day regardless of the subsequent changes in supply/demand conditions...Ofgem considers that there is a balance between the need for shippers/suppliers to respond to the GBA and the need for customers to have certainty via the GBA signal to provide demand side response". We still consider that maintaining the GBA signal throughout the day will improve the efficient and economic operation of the system by facilitating further demand side response. However, if parties continue to have concerns regarding this issue, we would note that it is open to them to raise further modification proposals to seek to address these concerns.

### *SMS/Email notification*

A number of respondents who offered their qualified support to the proposal considered that extra communication channels were vital to support implementation of the proposal given that NGG NTS would have the ability to provide information earlier and on an ad hoc basis, where appropriate. We agree that it is important to ensure the timely communication of a GBA to the market in order for the benefits of the proposal to be

realised in full. Therefore, we welcome the recent announcement from NGG NTS<sup>15</sup> that a new subscription service to receive automatic e-mail and/or text notifications for the notification of a GBA is now available to any interested parties. We believe that this service should bring comfort to those respondents concerned about the effective communication of a GBA.

#### *Conclusion*

Overall Ofgem considers that the proposal would better facilitate the achievement of relevant objective (a) by allowing market participants to better understand the operation of the gas market and to make more timely demand side decisions.

#### **Relevant Objective (f) – the promotion of efficiency in the implementation and administration of the uniform network code**

Ofgem considers that it is important to ensure consistency between UNC obligations and NGG NTS operational practices. We agree with the views expressed by the respondents who stated that that the proposed changes would ensure the UNC obligations concerning notification of demand forecasts by NGG NTS are aligned with NGG NTS's demand forecasting operational practices.

Therefore Ofgem considers that the proposal would also better facilitate the achievement of relevant objective (f) by promoting efficiency in NGG NTS's fulfilment of its obligations in this area.

#### **Relevant Objective (e) – 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**

NGG NTS considered that the proposal would better facilitate the achievement of relevant objective (e). As outlined in relation to objective (a) above, we recognise that the proposal would provide parties with more timely information allowing them to make better informed commercial decisions but do not consider that it would have a material effect upon the incentives on suppliers to meet the domestic supply security standards<sup>16</sup>.

Therefore we do not think that the proposal would better facilitate the achievement of relevant objective (e) but that it would have a neutral impact upon the achievement of this objective.

#### **Wider statutory duties**

Given the increase in the level of information that would be made available if the proposal were implemented, we consider that it would allow market participants to make better informed and more efficient commercial decisions based upon the prevailing market conditions. As noted in our consideration of relevant objective (a) above, we believe that by enabling market participants to take more informed and more timely commercial decisions the proposal may assist in preventing the occurrence of a gas deficit emergency. We are therefore of the view that the proposal is consistent with the Authority's principal objectives and statutory duties, in particular, by promoting effective

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<sup>15</sup> Gas Balancing Alert Email/SMS Service, 22.09.2006 <https://www.nationalgrid.com/uk/Gas/Data/News/>

<sup>16</sup> As set out in Standard Condition 32A of the Gas Suppliers Licence

competition, promoting efficiency and economy by licence holders, and assisting in maintaining security of supply.

**Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 101: Amendment to Demand Forecasting Timings in Relation to the Gas Balancing Alert be made.

A handwritten signature in black ink, appearing to read 'Sonia Brown', with a large, stylized initial 'S'.

**Sonia Brown**

**Director, Wholesale Markets**

Signed on behalf of the Authority and authorised for that purpose