Operating Margins Contestability
Explanation of Required Changes to UNC Section K (Issue 2)
National Grid Gas, 24th November 2008

This short note summarises the key changes required to UNC Section K as a result of the work to promote competition in the provision of the OM Service to National Grid Gas. In addition to these changes, National Grid Gas is proposing to rationalise, simplify and clarify the provisions of Section K.

1. Creation of "Operating Margins Year"

Currently, National Grid Gas specifies and procures its OM requirement on a Storage Year basis from storage-based providers. As new providers, such as NTS-connected supply and demand, are likely to work to Financial Years, certain references in Section K to "Storage Year" will need to be changed to a more generic "Operating Margins Year".

The Operating Margins Year would be defined at the time of procurement. National Grid Gas would expect to meet its OM requirement for the Operating Margins Year, however when procuring for an Operating Margins Year it may also wish to enter into certain longer-term arrangements which provide the OM service beyond the end of that period.

2. Extension of Operating Margins Gas Delivery Arrangements

OM Services provided by NTS-connected supply and demand sources will need to be defined as Operating Margins Gas Delivery Arrangements. The principles contained within current Section K to manage Operating Margins Gas Delivery Arrangements require no further change to cope with NTS-connected supply and demand sources.

3. Clarify the Role of Relevant System Managers

Current Section K contains provisions relating to "Relevant System Managers", however the provisions lack clarity.

For the purposes of the new section K, an "Operating Margins Manager" will be defined, which will be National Grid NTS acting for Operating Margins Purposes.

The Operating Margins Manager will be one of a potential number of 'system managers' who might be required to hold gas in store or utilise gas in store, instruct supply increases or demand reductions for system reasons. Any resulting cash flows as a result of the purchase of a commodity or service between RSMs shall be treated as set down with the Code. Such system managers will be known as "Relevant System Managers" (RSMs) within the Code. National Grid Gas is looking to introduce the flexibility to procure services in aggregate for more than one RSM at a time.

4. Procurement Flexibility

Where, during an Operating Margins Year, National Grid NTS has entered into an Operating Margins Capacity Arrangement, it requires the flexibility to either:

1. terminate such capacity arrangements (disposing of the gas-in-storage), and enter into either alternative Operating Margins Capacity Arrangements or Operating Margins Gas Delivery Arrangements; or
2. dispose of the gas-in-storage, sell the associated storage capacity and enter into either alternative Operating Margins Capacity Arrangements or Operating Margins Gas Delivery Arrangements

Similarly, where, during an Operating Margins Year, National Grid NTS has entered into an Operating Margins Gas Delivery Arrangement, it requires the flexibility to either terminate such gas delivery arrangement and enter into either alternative Operating Margins Gas Delivery Arrangements or Operating Margins Capacity Arrangements.

5. Ability to buy or sell gas in order to meet Operating Margins Capacity Arrangements

Where, during an Operating Margins Year, National Grid NTS has entered into an Operating Margins Capacity Arrangement and this has been terminated, or Operating Margins Capacity sold or transferred, National Grid requires the ability to dispose of any excess gas held in storage in order to avoid unnecessary Storage Overrun Charges.

National Grid NTS also requires the ability to buy gas in order to fulfill Operating Margins Capacity entered into as a result of Operating Margins Capacity Arrangements.

6. Extension to the use of Closing Margins Adjustment Charge

When gas is sold through the processes in paragraphs 3.2 (Start of Storage Year gas transfers) and 3.3 (Disposal of residual gas) in current code, National Grid NTS is able to recover the cost of procuring and injecting that gas in addition to any cost of sale such as withdrawal costs for sale at NBP. The difference between sales revenues and these costs are recovered from or smeared to shippers through the Closing Margins Adjustment Charge.

Gas can also be sold through processes in paragraph 3.1 before the Storage Year. It is proposed that pre-Storage Year transfers and the sale of gas as a result of termination, sale or transfer of Operating Margins Capacity Arrangements are also included within the Closing Margins Adjustment Charge.

7. Ability to use gas following damage or failure for 24 hours rather than the Gas Day

The utilisation of Operating Margins is currently restricted to the Gas Day for the purposes of meeting a requirement for Operational Balancing as a result of damage to or failure of any part of the NTS (other than Programmed Maintenance). It is proposed that Operating Margins can be used in these circumstances for the 24 hours following the event, such that the utilisation may be over two Gas Days.