

CODE MODIFICATION PROPOSAL No xxxx
Introduction of an Inter-Day Linepack Product
Version x.x

Date: 29/09/2010

Proposed Implementation Date: October 2011

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

N/A

1 Nature and Purpose of Proposal (including consequence of non implementation)

Background

Licence Obligation

In February 2010 Ofgem published its Final Proposals Consultation on the National Grid Gas System Operator Incentives. The Authority effected these Final Proposals on the 1st April 2010 through revisions to National Grid PLC's Gas Transporter Licence Special Licence Condition 27 ('C27'): Balancing Arrangements, which in part places an obligation on National Grid NTS to use reasonable endeavours to:

- Develop, in consultation with the industry, a Linepack product by 1st April 2011; and
- If directed to do so by the Authority, implement such product by 1st October 2011.

C27 also provides obligations to update the default System Marginal Buy and Sell Prices (SMP), as stated in Section F of the UNC, by 1st April 2011. For the avoidance of doubt, this Proposal is solely proposing to introduce a Linepack Product to satisfy paragraphs 1 and 2 of C27. Modification Proposal 0333 – "Update of the default System Marginal Buy Price and System Marginal Sell Price" is seeking to update the fixed System Marginal Price differentials and satisfy paragraph 3 of C27.

Review Group 0291 (RG0291) – 'NTS Licence Special Condition C27 – Balancing Arrangements' was initiated in order that National Grid NTS and the industry may develop and assess the feasibility of a recommended approach to both the introduction of a Linepack Product and the default SMP revisions.

Over the course of the RG0291 sessions several proposed Linepack Product options were put forward, by National Grid NTS,

for consideration, however National Grid considers that the general consensus of the Group was that only one of the options, the Inter-day Linepack Product bulletin Board, merited further development. The minutes of the final RG0291 session (10 September 2010) state that, *“the next step was development of business rules and a Modification Proposal, the process of Review was complete. If National Grid wished to share a revised version of the Business Rules prior to formally raising a Modification Proposal, the Transmission Workstream provided an appropriate forum.”*

The recommendation of the RG291 report stated that, *“The Group did not conclude that this review had identified deficiencies in the UNC which 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 is mindful that further development of the Linepack Product must be under-taken in conjunction with the industry, if a robust report is to be provided to the Authority for consideration. We believe that the development required does not only relate to the appropriate drafting of proposed business rules, but is also required to:

- address issues associated with the cost versus the benefits of providing the new service.
- address the key measures identified by the review group; and
- respond to other issues outlined below.

With this in mind National Grid NTS has raised this development Proposal. The proposed changes seek to introduce a service through which a new Inter-day Linepack Product can be made available to Users. We request that this Proposal is developed within the Transmission Workstream prior to any decision on the Proposal being sent to consultation.

National Grid NTS considers that raising this development Modification Proposal may also go some way to ensuring that the timescales prescribed by its C27 Licence obligations may be met.

Further Analysis

The RG0291 report states that, *“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.”*

RG0291 agreed that further development and analysis should be undertaken on the Modification which National Grid NTS is seeking to raise.

The Review Group suggested that the analysis of options should address the following areas;

- “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.”

National Grid NTS is anticipating that through this Proposal’s continued development within the Transmission Workstream the proposed changes may be clarified such that the analysis of costs can be meaningfully assessed against the potential benefits.

SO Incentive – Linepack incentives

RG0291 discussions highlighted that any potential revisions to the structure of the SO Linepack incentive would have a significant influence on the daily quantities of Linepack Product National Grid NTS may release. The Review Group raised concerns that in the absence of some indication of what the revised SO Linepack incentive structure may look like following the implementation of any Linepack Product Modification, the cost versus benefit implications could not be fully assessed.

Interactions with the Residual Balancing Role

We are mindful that the prevailing SO Incentive structure, and any future revisions, may have an impact on the interactions between the Residual Balancing role and the role of the Inter-day Linepack Manager. We believe that through the development of this Proposal some of the issues associated with these interactions may be clarified and in some part appropriately addressed. For the avoidance of doubt the role of the Inter-day Linepack Manager should not be considered as any type of replacement for the Residual Balancing role; these roles would continue as two entirely discreet entities.

FSA considerations

RG0291 noted that the activities proposed to be undertaken by National Grid NTS, as the Inter-day Linepack Manager, may be required to be FSA compliant. National Grid is currently seeking legal advice in respect of this issue and will clarify the position during the development of this Proposal.

Transparency of Linepack values

Under prevailing arrangements the value of Linepack and its utilisation to accommodate Users' daily imbalance positions is believed, by some industry participants, to be opaque. It has been argued that Linepack utilisation for this purpose creates the potential for a misallocation of costs between Gas Days and therefore the potential for a cross subsidy from one User group to another. This proposal seeks to improve this area of the regime by introducing a mechanism to identify and cost target the use of this product.

Nature of the Proposal

This Proposal, if implemented, seeks to make available an Inter-day Linepack Product. This new service will facilitate the carry-over of a quantity of a User's daily imbalance to the following Gas Day. This may be achieved by the User placing a bid onto an Inter-day Linepack Bulletin Board. The Bulletin Board will be operated and managed by National Grid NTS, who will undertake a new role as the proposed 'Inter-day Linepack Manager'. The product will be released as a discretionary quantity on a daily basis,

The Inter-day Linepack Product may be made available as a 'Park' service; where Users may wish to carry over a quantity of an over-delivered imbalance, or a 'Loan' service; where a User may wish to borrow a quantity of imbalance to cover an under-delivered imbalance. The Inter-day Linepack Manager may release one or both 'Park' and 'Loan' services on a Gas Day.

It is proposed that accepted Inter-day Linepack bids will be transacted through the registration of a matched pair of NBP Trade Nominations on the relevant Gas Day; and a further matched (but opposite) pair of NBP Trade Nominations for the following Gas Day, the latter pair of NBP trade nomination will reverse-out the inter-day Linepack quantity for the following Gas Day, thereby achieving a “carry-over” of the imbalance quantity between the two relevant Gas Days. Both pairs NBP trade nominations (for the Gas Day and the following Gas Day) will be registered on the Day the bid is accepted.

This service is seeking to introduce greater transparency associated with the value of providing the opportunity to “carry over” an imbalance quantity from one Gas Day to the next, where Linepack has the capability to accommodate such transactions. For the avoidance of doubt this service is not seeking to trade gas between the User and the Inter-day Linepack Manager.

It is proposed that all primary receipts from the sale of the ILP service will be returned to Shipper Users through Balancing Neutrality.

The Business Rules

To help clarify how the proposed service will operated in practise National Grid NTS has drafted the following set of Business rules to support this Proposal.

Inter-Day Linepack Product

Proposed Business Rules V0.2

1. Inter-day Linepack Product Overview

1.1. Introduction

- 1.1.1. The **Inter-day Linepack Product (ILP)** furnishes Users with the ability to undertake an inter-day transfer of a specified energy quantity.
- 1.1.2. There are two types of ILP, which can be represented as a ‘Park’ and a ‘Loan’ product.
 - (a) ‘Park’ product – represents an inter-day transfer, from one Gas Flow Day to the next, of a positive quantity of energy.

- (b) 'Loan' product – represents an inter-day transfer, from one Gas Flow Day to the next, of a negative quantity of energy.

1.2. When made available, the ILP will be released within-day by National Grid NTS through the market mechanism detailed below.

2. The Inter-day Linepack Bulletin Board

2.1. Introduction

2.1.1. The ILP will be made available on the **Inter-day Linepack Bulletin Board**.

2.1.2. The Inter-day Linepack Bulletin Board will be operated by the **Inter-day Linepack Manager** (or the Inter-day Linepack Manager's agent).

2.1.3. The Inter-day Linepack Bulletin Board will show bids, offers, quantities, prices, quantities made available, and release times.

2.2. The Linepack Manager

2.2.1. National Grid NTS will be the Inter-day Linepack Manager (ILM) [can this role be created through the UNC or is a Licence change necessary? Is an FSA exemption needed as a trading platform is being created?] for the purposes of;

- (a) determining the amount of ILP available for release; and
- (b) operating the Inter-day Linepack Service; and
- (c) accepting bids on the Inter-day Linepack Bulletin Board

2.2.2. The ILM will have an UK Link account, but will not be subject to cashout charges and balancing neutrality, and any imbalances it creates will be suppressed. [Lack of interactions and implications for EBCC to be confirmed, and impact of NTS exposure to the trade transacted.]

2.2.3. The ILM will be the counterparty to all accepted ILP transactions on the Inter-day Linepack Bulletin Board.

2.3. Access to the Inter-day Linepack Service

- 2.3.1. Any User may place up to [10] bids on the Inter-day Linepack Bulletin Board for each release subject to a minimum bid size of 100,000kWh.

2.4. Product Release

- 2.4.1. When made available by the ILM, ILP shall be released within-day for the Gas Day.
- 2.4.2. When ILP is to be made available, the ILM will initiate at least one release of the ILP within a Gas Day.
- 2.4.3. When the ILM has accepted bids, the associated NBP trades shall be completed before the end of the relevant Gas Day.

2.5. Posting ILP Bids

- 2.5.1. A User may post (and withdraw) bids on to the Inter-day Linepack Bulletin Board from 7 days prior to the relevant Gas Day up to the prescribed time of the release of the ILP.
- 2.5.2. Bids are subject to a zero reserve price.
- 2.5.3. All relevant posted bids which are posted prior to the time of the first (or only) ILP release for the Gas Day will be included in the first (or only) ILP release allocation process [create gate closure concept?].
- 2.5.4. Any unaccepted quantity of bids which are not wholly accepted in an ILP release allocation process, and all wholly unaccepted bids will be carried forward to the next ILP release allocation process within that Gas Day subject to not having been withdrawn and remaining greater than the minimum size.
- 2.5.5. Bids for further releases within the Gas Day may be posted after the closeout of the first ILP release.
- 2.5.6. At the Close of the Gas Day all non-accepted, expired bids for that day will be dropped from the bid list.
- 2.5.7. Once a bid is posted no changes can be made to the bid.
- 2.5.8. A bid can either be accepted by the ILM, or at the end of the relevant Gas Day the bid will expire.

2.6. Submitting Bids information

- 2.6.1. Where the User places a bid onto the Bulletin Board; the User shall;
 - (a) Indicate whether a 'Park' or 'Loan' product is required, and the required ILP release

- allocation day
- (b) Specify price (pence per kWh)
- (c) Specify Quantity (kWh)
- (d) Indicate whether the bid may be partially accepted [subject to limits?]
- (e) User ID

2.7. Confidentiality

To be agreed

2.8. Timing of Release

[Expected volume available to be published by NTS and Shippers to have opportunity to reconsider their position (withdraw/post bids) prior to the release process being initiated]

- 2.8.1. There will be a maximum of five ILP releases during the Gas Day (defined in Para 2.8.7).
- 2.8.2. With the exception of release 4 and 5; Each relevant release will commence;
 - (a) 1 ½ hours after the relevant Demand Forecast notification time prescribed under UNC section H5.2.3.and;
 - (b) Following the next on the hour PCLP publication after the relevant Demand Forecast notification.
- 2.8.3. Release 4 and 5 will commence 1 hour after the relevant Demand Forecast notification time prescribed under UNC section H5.2.3.
- 2.8.4. The ILP will be released at defined times as prescribed below:

Release 1	Release 2	Release 3	Release 4	Release 5
13:30	16:30	19:30	22:30	03:00

3. Bid Acceptance process

3.1. The bid acceptance process will be carried out by the ILM in

the shortest time practicable, but in any case within an hour of the closer of the release time stated in Para 2.8.4.

3.2. [Outcome to be published]

3.3. Acceptance Criteria

- 3.3.1. [Bids will be accepted in price order].
- 3.3.2. [Highest price to lowest.]
- 3.3.3. The earliest posted bid will be accepted if price is the same. [could aim to maximise the volume accepted instead]

4. Post bid acceptance process

Where the ILP bid is accepted the associated transactions will be effected as NBP trades. *The following three options are suggested:*

Option 1:

4.1. Inter-day Linepack product NBP Trade Transactions

- 4.1.1. Where an ILP bid is accepted by ILM, the User and the ILM will be required to effect the following NBP Trades equal to the energy quantity of the accepted bid:

4.1.2. where the bid is for a 'parked' product:

in respect of D;

- (a) The User registers an NBP sell trade nomination.
- (b) The Linepack Manager registers an NBP buy trade nomination

in respect of D+1;

- (c) The User registers an NBP buy trade nomination
- (d) The Linepack Manager registers an NBP sell trade nomination

4.1.3. where the bid is for a 'Loan' product:

in respect of D;

- (a) The User registers an NBP buy trade nomination.

- (b) The Linepack Manager registers an NBP sell trade nomination

in respect of D+1;

- (c) The User registers an NBP sell trade nomination
- (d) The Linepack Manager registers an NBP buy trade nomination

Option 2:

4.2. Automated Nominations

- 4.2.1. All ILP trade nominations will be automatically generated by the UK link system. Trade Nominations as above. [Preferred approach subject to the level of costs.]

Option 3:

4.3. ILM updates Trade Nomination On behalf of User

- 4.3.1. The ILM will complete the Trade Nomination transactions on behalf of the User. Trade Nomination as above.

5. Information Provision

- 5.1. Following each ILP release National Grid will publish the total accepted volume of net Parked and Loan product.
- 5.2. Parked: projected amount available, amount bid for, amount accepted, price range of bids – accepted and not – volume weighted average prices, whether any Market Balancing Actions were taken after the release in the opposite direction (and vice versa)
- 5.3. Loaned: projected amount available, amount bid for, amount accepted, price range of bids – accepted and not – volume weighted average prices, whether any Market Balancing Actions were taken, by the Residual Balancer, after the release in the opposite direction (and vice versa)

6. Invoicing and Charging

- 6.1.1. The value of the accepted bid will be calculated as the accepted bid quantity multiplied by the bid Price (i.e. pay as bid).
- 6.1.2. The ILP bid payments will be made through an [Energy Balancing invoice item] in-accordance with Section S of the UNC.

6.1.3. Receipts from the ILP bid payments will be included within the Adjustment Neutrality process for the Gas Day when the product was allocated.

2

User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

It is proposed that this Proposal meets the User Pays classification.

As previously stated this Proposal seeks to introduce an new Inter-day Linepack service which enables Users to utilise Linepack as an additional balancing tool to manage their end of day imbalance position. We therefore consider that this proposed service meets the criteria of a User Pays service.

Additionally the Proposal seeks to introduce greater transparency in the value of Linepack utilisation, it seeks reduce the level of cross subsidy of EoD Linepack utilisation and balancing costs by enabling Users to undertake their primary balancing role through the utilisation of Linepack.

We consider that the introduction of an additional Shipper balancing tool and the potential reduction in cross-subsidy of costs associated with Linepack utilisation is to the benefit of Users.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

For the reasons described above we believe that if implemented this Proposal primarily represents a benefit to Users and represents a marginal benefit to Transporters; where Users are extended greater opportunities to fulfil their primary balancing role the requirement for the Transporters to undertake actions required in respect of total system balancing may in some part be reduced.

c) Proposed charge(s) for application of Users Pays charges to Shippers

TBC

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

TBC

3 Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence

National Grid considers that the intent of the Modification Proposal is to introduce a new service that seeks to achieve two principle objectives:

- The introduction of a mechanism through which Linepack may be valued; and
- The introduction of an additional balancing tool for Users to manage their End of Day imbalance positions.

We therefore believe that in the absence of any potential effects associated with:

- uncertainties relating to the quantity of product made available each day;
- uncertainties relating to possible revisions of the SO - Linepack Incentive scheme; and
- uncertainties associated with development, implementation and operational costs;

the proposed changes may represent improvements to the relevant objectives, in so far as;

Establishing a value for Linepack may improve day on day Linepack utilisation thereby better facilitating **SSCA11.1(a) 'the efficient and economic operation of the pipeline system to which this licence relates;** and

The introduction of an additional balancing tool through which Users may manage their EoD balance position may better facilitate **SSCA11.1(d): So far as is consistent with subparagraph (a) to (c) the securing of effective competition.**

National Grid NTS is however mindful that in practise these improvements may be marginal and should be balanced against the uncertainties stated above.

Additionally this Proposal seeks to make available a new Linepack Product which satisfies the National Grid NTS Special Standard Licence condition 27 and therefore demonstrate the efficient discharge of the Licence obligation.

4 Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

UK Link System Impacts

In respect of the UK Link system changes required to support the implementation of this Proposal, and based on the business rules provided with this Proposal, National Grid NTS has issued a Change Order request to xoserve We are currently awaiting the receipt of the Rough of Magnitude (RoM).

Operational Impacts

We anticipate that the proposed changes will require National Grid NTS to appoint an Inter-day Linepack Manager to operate and manage the Inter-day Linepack Bulletin Board. Additionally National Grid NTS may be required to administer the Day and D+1 Trade Nominations, required to effect the Inter-day Linepack transactions, on behalf of the transacting Users.

Business Rules

Provided in section 1

5 Code Concerned, sections and paragraphs

- a) Uniform Network Code
- b) Transportation Principal Document

Section(s) TPD section D – Operational Balancing and Trading Arrangements and E – Daily Quantities, Imbalance and Reconciliation

Proposer's Representative

Steve Pownall (National Grid NTS)

Proposer

National Grid NTS