

Modification proposal:	Uniform Network Code (UNC) 100: Amendment to OPN/SFN submission times		
Decision:	The Authority¹ directs that this proposal be made²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	30 October 2006	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

During winter 2005/06, concerns were raised by some market participants regarding the accuracy of National Grid's (NG's) forecasts of gas demand, with some of these market participants stating that the inaccuracy of these forecasts resulted in them incurring significant costs. As a consequence of this, new incentives were developed that give NG a financial incentive to improve the accuracy of its day-ahead (D-1) forecast published on its website by 14:00.³ These incentives were implemented on 1 October 2006.

In response to these new incentives, NG has reviewed the way in which it receives information that it uses in forecasting demand. This has led to NG raising Modification proposal 0100.

The modification proposal

Modification proposal 0100 "Amendment to OPN/SFN submission times" (the proposal) was raised by NG NTS on 1 August 2006.

NG receives information on forecast gas demand through Offtake Profile Notices (OPNs) and Storage Flow Notices (SFNs)⁴. These provide NG with a forecast of the rate of gas offtake from the NTS at each exit point throughout the gas day⁵.

At present, initial OPNs/SFNs are required to be sent to NG not later than the time specified in the Network Exit Provisions (NEPs)⁶. These times are currently either 16:00 or 17:00 on D-1. Revisions of these notices can also be submitted to NG and are required when there is a change in the expected offtake rate⁷.

This proposal seeks to revise the submission times for the initial OPNs and SFNs to be 12:00 for NTS OPNs/SFNs and 12:30 for DN OPNs/SFNs on D-1. The proposal does not seek to amend the NEPs and as a result they fall outside of the

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

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

³ Further details can be found in "Potential new System Operator quality of information incentive schemes for National Grid Gas", Ofgem, July 2006 122/06. This can be found here: <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/wholesalemarketmonitoring>

⁴ For the purposes of the Uniform Network Code (UNC) an SFN can be an OPN in the instances where it is injecting into the NTS. Reference to SFNs in this decision are meant in this context.

⁵ Paragraph 4.5.1 of Section J of the Transportation Principal Document of the Uniform Network Code.

⁶ These provisions in relation to a Supply Meter Point or Connected System Exit Point (within the meaning of the UNC) are contained in a Network Exit Agreement (NEXA) (which includes an Interconnection Agreement and a Storage Connection Agreement ("SCA")), and in relation to an Inter-System Offtake, in the Offtake Arrangements Document of the UNC and the relevant Supplemental Agreement.

⁷ In accordance with paragraph 4.5.4 and 4.5.5 of Section J of the Transportation Principal Document.

scope of this modification proposal. The proposed change in initial notification times is illustrated in Appendix 1 of this letter.

If implemented, the proposal will provide information to NG incremental to that provided to NG at the moment (given the proposal does not modify the NEPs, or the notifications required under them). In addition, the proposal does not modify the existing requirements in which any changes in a participant's offtake profile subsequent to the initial submission (at 12:00 or 12:30 respectively) are required to be notified to NG⁸.

UNC Panel⁹ recommendation

At its meeting of 21 September 2006, the UNC Modification Panel voted not to recommend implementation of this proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 25 September 2006. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposals which are attached to the FMR¹⁰. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹¹; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹².

Reasons for the Authority's decision

We consider that the modification proposal impacts most significantly upon relevant objectives (a) and (f) of the UNC. Below, we set out the reasons why we believe that the proposal would better facilitate those objectives overall.

We consider it important that NG has the most reliable and up to date information on which to base its 14:00 day-ahead demand forecast, and consider the proposal will improve the quality of information that NG receives. We recognise the concern of the majority of gas shippers and other operators that this change will impose costs on them. However, given the magnitude of the potential benefits associated with more accurate gas demand forecasts (potentially as high as £10.6m on a "tight day"¹³) and the fact that we did not receive any evidence to suggest equally significant costs, we have concluded on balance that the proposal should be implemented.

We do not consider relevant objectives (b), (c), (d) and (e) to be relevant to the proposal and these have not been considered in our decision.

⁸ Pursuant to paragraphs 4.5.4 and 4.5.5 of Section J of the Transportation Principal Document.

⁹ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

¹⁰ UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹¹ 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

¹² 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.

¹³ See pages 15 to 18 of "Potential new System Operator quality of information incentive schemes for National Grid Gas" 88/06 found at the link in footnote 3.

Relevant Objective (a) – the efficient and economic operation of the pipeline system to which this licence relates

The proposer and two respondents in support of the proposal believe that by enabling the provision of more accurate demand forecasts the proposal would enable the market to better plan its actions for the forthcoming day. However, some respondents expressed the concern that accurate data on gas demand is not always available by D-1 12:00. Hence there is a risk that NG would use less accurate demand data in their D-1 14:00 demand forecasts (to the detriment of the efficient and economic operation of the pipeline system).

Accuracy of data and forecasts

We agree with the proposer that the earlier provision of the OPN/SFN notices has the potential to provide more accurate demand forecasts at D-1 14:00.

Information provided to NG through OPNs and SFNs relates to daily metered loads (“DM loads”). Last winter it became apparent that demand from DM loads can be very responsive to wholesale prices. During the period of last winter when prices were at their highest, National Grid observed demand side response from DM loads of up to 40mcm/d – which is an equivalent size to the withdrawal rate from Great Britain’s largest storage facility. We therefore think that this proposal will potentially enable NG to receive more information regarding the forecast offtake by the most price sensitive loads, and therefore on the likely levels of demand side response. We consider that the consequential improvement in information regarding forecast level of gas offtake will improve the efficiency of market participants’ contracting decisions.

Some respondents stated that the accuracy of demand forecasts may deteriorate as a result of this proposal, as accurate information to inform the OPNs/SFNs may not be available by the time of the revised initial notification times. However, as outlined above, the proposal does not reduce the existing requirements on participants to provide information (through which users are required to update NG where there are any changes in a user’s offtake profile subsequent to the initial submission). Additionally, we would note that Standard Licence Condition (SLC) 3 of the Shipper Licence, amongst other things, requires that Shippers do not knowingly or recklessly pursue any course of conduct which is likely to prejudice the safe, economic and efficient operation of the pipeline system and, more particularly, that they do not give a false impression as to the amount of gas to be comprised in its offtakes¹⁴. This should encourage Shippers to provide NG with the most accurate information they have at the time required in the proposal, for example, by reviewing current arrangements for gathering this information. As a consequence, we consider this proposal is likely to improve the information flow and at worst that it will have a neutral effect for those offtakes that are unable to provide any better quality information to NG.

We also recognise that there may be a short term ‘settling in’ period in which NG will have to become familiar with the quality of the data and learn how best to incorporate it into their forecast. We therefore expect the full benefits of the proposal are likely to be seen to accrue over time.

SO balancing actions

As stated in our SO quality of information incentives initial proposals consultation document¹⁵, we consider that one of the benefits from improved demand forecasts is potential improvements in the efficiency of SO balancing actions. If

¹⁴ Standard gas shipper licences can be found on the e-public register of Ofgem’s website. SLC 3 can be found here: <http://62.173.69.60/index.php?pk=folder132308>

¹⁵ See footnote 13.

market participants are supplied with accurate information and signals at D-1, then this increases market certainty, therefore enabling participants to balance their own positions more accurately at D-1. As a consequence, it is less likely that NG will be required to take any residual actions on the gas day to ensure supply and demand balance.

Conclusions

Having considered the responses, for the reasons outlined above, we consider that the proposal would better facilitate achievement of relevant objective (a) by providing improved D-1 14:00 demand forecasts that will assist in reducing the SO's balancing costs.

Relevant Objective (f) – so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code:

The majority of respondents noted that there would be an increase in administrative burden and operational costs if the proposal were to be implemented due to amendments to current practices and altering existing agreements. One respondent (who operates in the market) believed there would be no additional cost to implement the proposal.

Administrative and downstream costs

While we note respondents' concerns that there will be cost implications for administrative processes and contractual arrangements resulting from the implementation of this proposal, no substantive views on the potential level of these costs were provided. We consider there to be benefits to customers from improvements in gas demand forecasts, potentially as high as £10.6m on a "tight day". The costs of implementing the proposal would need to be extremely significant to offset these potential benefits. In the event that the cost implications of the proposed modification were seen as being prohibitive by respondents, we would have expected this to be demonstrated by respondents through quantified submissions.

Several respondents were also of the view that because of required changes to the administrative processes and contractual arrangements that there would be up to 6 to 9 months required before the changes to initial notices could be implemented. Again, we recognise that certain participants may require a certain amount of time to update processes. However, we do not believe, given the limited number of offtakes the proposal affects, that this will take 9 months to implement or that it has been demonstrated that this would be prohibitive.

Conclusions

For the reasons outlined above we consider that, on balance, the proposal would have some detrimental impact on relevant objective (f). However, the significance of this impact has not been demonstrated and we consider that, on balance, this detrimental impact is outweighed by the benefits to relevant objective (a).

Assessment against the Authority's other statutory duties

We consider this proposal to be consistent with our principal objective and wider statutory duties. In particular, we believe that ultimately, the interests of consumers will be protected by improving the efficient and economic operation of the NTS.

Wider Issues

We welcome proposals that seek to improve the quality of information available to market participants. Whilst we believe that, on balance, modification proposal 0100 better facilitates the relevant objectives, we also consider that further and ongoing improvements to NG's demand forecasts would be beneficial to the industry.

As mentioned above, modification of the NEPs is outside of the scope of this modification proposal. We would note, however, that there is a dual-regime in place in respect of the timing for the provision of OPNs/SFNs in place and industry may want to consider whether there are any disparities between the two regimes.

We also note that, in its response to the modification proposal, Centrica Storage Ltd (CSL) stated it would not be in a position to forecast its clients intended offtake flows by the time required in the proposal.¹⁶ CSL considered that, were it to use its own judgement to forecast the initial SFN then this may leave CSL exposed to accusations of market manipulation.

We understand CSL's concerns, and agree that it is important CSL does not mislead the market in any way. We therefore look to CSL to review the arrangements it has in place with its customers to ensure they enable it to provide accurate information on forecast gas offtakes to NG. We also note that, at present, the Rough storage facility is full (therefore affording little likelihood for the offtake of gas from the NTS in the short term). We consider this presents CSL with a window of opportunity in which it will be able to review the relevant arrangements, with a view to ensuring it is not placed in a position in which it provides misleading information to NG.

Some respondents also highlighted that the proposal will misalign the United Kingdom with EU harmonisation under the European Association for the Streamlining of Energy Exchange – Gas (EASEE-gas) common practice. However, as pointed out by the respondent these arrangements are voluntary. Further to this, the differences may indeed be appropriate due to the various arrangements that exist in the countries within the EU.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC100: Amendment to OPN/SFN submission times be made.



Sonia Brown
Director, Wholesale Markets

Signed on behalf of the Authority and authorised for that purpose.

¹⁶ Centrica Storage's response is available from the Joint Office of Gas Transporters Website at www.gasgovernance.com.

Appendix 1 – OPN/SFN initial submission times under current and UNC100 arrangements

