

Modification proposal:	Uniform Network Code (UNC) 223: Provision of day ahead Gas Flow Nomination data at major Aggregated System Entry Points		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	18 December 2008	Implementation Date:	To be confirmed by the Joint Office

Background to the Modification proposal

A number of recent rule changes have been implemented in order to improve transparency and market operation by releasing more information to market participants, including for example, information relating to flows of gas at entry points onto National Grid Gas NTS's (NGG) National Transmission System³.

This letter considers UNC Modification proposal 0223 (Modification 0223). If implemented, this would require the release of information on day ahead gas flow nominations (Nominations) at major Aggregate System Entry Points⁴ (ASEPs). This information is one of seven types of data identified in the first phase of the North West Gas Regional Initiative (NW GRI) transparency project⁵ ('the Transparency Project').

In its January 2006 Gas Probe conclusions document⁶, Ofgem highlighted a lack of European gas market transparency as a serious concern, with the potential to impact upon prices and consumers in Great Britain (GB). As of 2007, Ofgem has led efforts as part of the European Regulatory Group for Electricity and Gas (ERGEG) regional initiatives to improve transparency across Europe. This has culminated in the Transparency Project.

The Transparency Project is a voluntary initiative. It involves 17 transmission system operators (TSOs)⁷ operating in nine⁸ countries in the North West of Europe. The scope of the project was agreed in negotiation between Users and TSOs. Based on transparency priorities identified by Users, TSOs agreed to deliver information on seven data types on gas transmission capacity⁹ and gas flows¹⁰. The objective is for all TSOs to published and keep the relevant information up to date the as required by the end of 2008.

NGG already publish six of the seven data types¹¹ specified in the Transparency Project. Modification 0223 will enable NGG to publish the seventh data type on Nominations.

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 Modification UNC006; for more information see www.gasgovernance.com

⁴ Aggregated System Entry Points (ASEPs) are defined in the UNC. Major ASEPs are defined as those with a maximum daily capacity of greater than 10mcm.

⁵ http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/North_West
⁶ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Markets/WhIMkts/CompanEff/InvestigReport>

⁷ The TSOs are: Swedegas, Svenska Kraftnät, Bord Gais, National Grid, Interconnector, Energinet.dk, GTS, Fluxys, DEP, Gasunie Deutschland, E.ON GT, RWE TNG, WINGAS TRANSPORT, Ontras, GdFDT, GRTgaz and BBL

⁸ The nine countries are: GB, Ireland, N. Ireland, France, Germany, Belgium, Netherlands, Denmark, Sweden.

⁹ On capacity: (a) maximum technical capacity (b) the probability of interruption (c) daily available commercial firm and interruptible capacity;

¹⁰ On gas flows: (a) daily gas flows and interruptions (b) daily prompt shipper allocation information (c) day ahead Nomination information (d) historic gas flow information

¹¹ The six data types that NGG publishes are: maximum technical capacity, the probability of interruption, daily available commercial firm and interruptible capacity, daily gas flows and interruptions, daily prompt shipper allocation information and historic gas flow information.

The Modification proposal

Modification 0223 was raised by NGG (the proposer) in September 2008. It proposes that for any ASEP capable of flowing more than 10 mcm per day, NGG shall publish information on Nominations. This will be published by 18:00 on D-1 on NGG's website.

For each ASEP which does not have an associated system exit point, NGG will publish aggregate prevailing Input Nominations. Where there are no nominations at one of these points, a zero figure will be published.

For each ASEP which has an associated System Exit Point, NGG will publish the net prevailing Input Nominations. Net prevailing Input Nominations will be defined as aggregate prevailing Input Nominations less aggregate prevailing Output Nominations. This figure may be positive, negative or zero.

The proposer considered that Modification 0223 would better facilitate the achievement of relevant objectives (b) and (d) as set out in Standard Special Condition A11 (1) of the Gas Transporters Licence¹², as follows:

With respect to objective (b) NGG considers that releasing Nominations data will better enable Users to make an assessment of available capacities. The proposer stated that such information may enable Users to adjust their Nominations to utilise unused capacity and so result in a more efficient utilisation of the existing transmission infrastructure.

With respect to objective (d), NGG argues that Modification 0223 increases transparency at key network points. Increased transparency would result in Users having more information on which to base commercial decisions. NGG conclude that competition between better informed Users will be more effective.

UNC Panel¹³ recommendation

At the Modification Panel (the "Panel") meeting held on 20 November 2008, of the 8 voting members present, capable of casting 10 votes, 8 votes were cast in favour of implementation of this modification proposal. Therefore the Panel recommended that Modification 0223 be implemented.

The Authority's decision

The Authority has considered the issues raised by the Modification proposal and the Final Modification Report (FMR) dated 1 December 2008. We have considered and taken into account the responses to the Joint Office's consultation on the Modification proposal which are attached to the FMR¹⁴. The Authority has concluded that:

1. implementation of the Modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹⁵; and
2. directing that the Modification be made is consistent with the Authority's principal objective and statutory duties¹⁶.

¹² This Licence Condition can be viewed at: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

¹³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

¹⁴ UNC Modification proposals, Modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

¹⁶ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

Reasons for the Authority's decision

The Authority considers that Modification 0223 impacts on the facilitation of relevant objectives (b) and (d) of the UNC most significantly. We have set out below why we believe Modification 0223 would better enable the achievement of these objectives.

We note several respondents' comments that Modification 0223 would encourage the growth in transparency on other networks in Europe, and would be a small step towards an integrated single European energy market. The Authority believes that this is an important consideration, but recognises that any benefit would be an indirect result of Modification 0223 in taking its decision.

Overall, nine out of eleven respondents to the consultation supported the implementation of Modification 0223.

Relevant objective (b) – so far as is consistent with (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters

Improved transparency

We recognise that NGG publishes a range of information relating to the use of the NTS. We nevertheless consider that the publication of Nominations information will provide incremental benefits. In particular we consider that by providing day-ahead nominations information, Modification 0223 should provide Users with the opportunity to better understand on an advanced basis the supply of gas onto the NTS. Users may use the information to form their own assessment of supply and demand and therefore inform their own commercial decisions. We consider that the publication of this information might also, at the margin, assist Users in more efficiently managing their imbalance positions. This could potentially reduce the role of NGG as residual balancer and therefore improve the efficient, economic and coordinated operation of the NTS and allow the market as a whole to operate more efficiently.

One respondent commented that NGG already releases data on available daily capacity on a monthly basis, available daily interruptible NTS entry capacity ahead of the day and aggregate input/output/linepack data throughout the day. The respondent considered that there would be limited value to releasing information on day ahead Nominations.

We also consider that providing Nominations information could assist Users in determining the likely availability of unused NTS entry capacity at ASEPs ahead of the gas day. This could result in more efficient utilisation of the existing infrastructure as Users will be better informed. In particular, the information could assist Users in deciding where to input their gas onto the NTS and whether to re-nominate and buy or sell NTS entry capacity at particular ASEPs in order to manage their own balancing position. Two respondents to the consultation supported this view.

One respondent considered that the Nominations information may be misleading, and result in inefficient decisions, if Users did not recognise that day ahead nominations are provisional and potentially unreflective of actual gas flows.

As Users' commercial decisions regularly entail sophisticated assessments of information (including forecast information) we consider that the risk of misinterpretation is low. NGG should minimise the risk of misinterpretation by publishing clear and accessible definitions of the information that is being made available.

Discrimination

A primary duty of all gas transporters' licences is to avoid undue preference or undue discrimination in the terms on which conveyance of gas is undertaken. One respondent considered that Modification 0223 may result in discrimination because NGG intends to publish data for bi-directional points and entry points but not for exit points.

However, other respondents support publishing net data for bi-directional points and consider that this would be less misleading than publishing "zero" figures for bi-directional points where net nominations are negative.

It is the Authority's view that Modification 0223 will better facilitate the objectives of the UNC. Although this modification will result in different information being released for bi-directional, entry and exit points, we do not consider this to be undue discrimination because of the differing nature of these points. We also support the view that providing data for bi-directional points in the form of net figures instead of a zero figure when net nominations are negative is of greater value to Users.

If market participants feel that the relevant objectives of the UNC would be better met through the additional publication of day ahead nominations at System Exit Points, then they are able to raise a modification to this effect.

Several respondents commented on the fact that Modification 0223 includes all major ASEPs, rather than import and export points as specified in the Transparency Project, and that this helps to avoid any undue discrimination. The Authority agrees with this position and welcomes the greater transparency associated with Modification 0223.

Implementation costs

NGG has said that the costs of implementing Modification 0223 will be minimised by releasing this data as part of phase two of the existing Market Information Provision Initiative (MIPI) project. These costs will be met by NGG and there will be no impact on price regulation.

We therefore consider that the Proposal would better facilitate the achievement of relevant objective (b) of the UNC and assist in the coordination, efficient and economic operation of the combined pipe-line system, and the pipe-line systems of relevant gas transporters in GB.

Relevant objective (d) – so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant shippers, suppliers and DNs

Increased competition

Six respondents to the consultation considered that relevant objective (d) of the UNC would be better achieved through the implementation of Modification 0223. We consider that improved access to information should allow Users to better assess supplies of gas onto the NTS, and make more informed commercial decisions. This should in turn assist Users in responding more efficiently to market events (e.g. supply shortages) thereby facilitating more efficient market signals and helping to promote trading liquidity. The delivery of more efficient market signals should ultimately benefit downstream customers in terms of price and service.

In addition, we consider that Modification 0223 should promote effective competition by providing all market participants with equal access to this information and will therefore help to create a level playing field.

The implementation of Modification 0223 should therefore better facilitate the securing of effective competition between relevant shippers and suppliers.

Commercial confidentiality

Modification 0223 excludes ASEPs with a maximum daily flow capacity of 10mcm or less. This is consistent with previous modification proposals that have been accepted, such as UNC006. Several respondents thought that the exclusion of ASEPs with a maximum daily flow capacity of 10mcm or less from Modification 0223 was sufficient to alleviate concerns about confidentiality; the Authority agrees with this position.

Objectives (a), (c), (e) and (f) of the UNC are not considered to be relevant to Modification 0223 and are therefore not considered in this letter.

Other Issues

Security of Supply

The development of a fully functioning European gas market is generally considered to be essential to ensuring security of supply as it will better enable gas to flow across national boundaries to the points where it can realise its greatest value. Modification 0223 represents a small step towards a better functioning and more efficient European market.

European Transparency

Six respondents noted that implementing Modification 0223 as part of the Transparency Project will set a leading example to other countries in Europe to increase transparency on their own networks. Improved European transparency and network access is beneficial to the Authority's primary objective to protect the interests of consumers.

One respondent commented that, as this Modification is in advance of the implementation of the EU third energy package, the requirements for transparency may change at a later stage. The Authority considers that Modification 0223 provides incremental benefits (as set out above) and therefore better facilitates the achievement of the relevant objectives.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that Modification proposal UNC 0223: "Provision of day ahead Gas Flow Nomination data at major Aggregated System Entry Points" be made.

The implementation date of this modification is yet to be confirmed. Several respondents were concerned that the date of Q2/3 2009 was late in relation to the deadlines set out in the NW GRI transparency project of December 2008. One respondent also commented that, given the progress to date on the MIPI project, Q4 2009 seemed a more likely implementation date. The Authority requests that Modification 0223 be implemented as soon as is reasonably practicable without incurring disproportionate additional costs.



Martin Crouch
Director – European Strategy & Environment

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