

Modification proposal:	Uniform Network Code (UNC) 257: Revision of the Gas Balancing Alert Trigger / Safety Monitor (UNC257)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	30 September 2009	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The Gas Balancing Alert (GBA) was introduced in the winter of 2005/6 in order to provide signals to the market about the ability of gas supplies to meet expected demand. The GBA acts as a warning system to market players in times where gas supply margins are expected to be tight. Players can respond to this by reducing their gas demand or increasing their supplies in order to prevent a Network Gas Supply Emergency from occurring. The GBA trigger level is set by National Grid NTS according to projected daily gas supplies, forecast daily demand and the impact of a potential breach of the Safety Monitor.

The Safety Monitor exists in order to ensure that sufficient gas is available in storage throughout winter to maintain the safety of gas customers on parts of the network that cannot be isolated within a reasonable period of time in the event of a Network Gas Supply Emergency.

In May 2009, National Grid NTS (NG) issued its proposed revisions to the Safety Monitor. The changes proposed that the level of gas storage required by the Safety Monitor be aggregated across all storage facilities, rather than the existing arrangements which imposed Safety Monitor storage requirements by storage facility type (i.e. short, medium and long range storage). This change was proposed on the grounds that it should improve security of supply whilst at the same time facilitating improved transparency and enhanced information provision to the market.

NG indicated that it believed it would be necessary to amend the prevailing GBA calculation to ensure that it reflected the revised Safety Monitor methodology. Further to the above, NG has put forward UNC257, which seeks to modify the UNC to reflect the changes proposed in May 2009.

Modification Proposal

UNC257 seeks to:

1. Move to a single aggregated Safety Monitor (for all storage facility types) with two or more days deliverability;
2. Use National Grid NTS's new aggregated Safety Monitor deliverability figures when calculating the GBA trigger level;
3. Revise the two day ahead GBA storage deliverability amount to one component based on the aggregate of the two day storage deliverability amount when calculating the GBA trigger level, rather than by individual storage facility types.

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.

The proposer believes that these changes will provide the market with greater clarity on remaining UK gas storage stocks, enabling them to respond effectively to supply and demand issues accordingly.

UNC Panel³ recommendation

At the Modification Panel (the "Panel") meeting held on 20 August 2009, the Panel voted unanimously in favour of implementing this modification proposal⁴. Therefore, the Panel recommended implementation.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and version 3.0 of the Final Modification Report (FMR) dated 28 September 2009. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁵. The Authority has concluded that:

1. Implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁶; and
2. Directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

We consider that UNC257 will deliver clearer signals to the market about the actual level of gas supply, provide a GBA trigger level which is more reflective of the gas supply situation and enable better decision making by market participants. We believe that the proposed changes to the text of the UNC will bring the document in line with operational practices going forward. We set out in detail below the relevant objectives we believe will be better facilitated by UNC257 and the reasons why we believe that this will be the case.

We note that the Joint Office received eight responses to its consultation on UNC257, seven of which were supportive of the proposed amendments. One respondent was not in support of the modification. We also note that the Health and Safety Executive is aware of UNC257 and the changes to the Safety Monitor methodology, and has not raised concerns in respect of their implementation.

Relevant Objective (a) - the efficient and economic operation of the pipe-line system

The proposer states that aligning the Safety Monitor and GBA trigger calculations will more accurately portray total system status and provide greater clarity on the actual remaining storage position. This improved information is expected to benefit both the system operator and system users, as it should provide a basis for more efficient

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁴ Minutes of the Panel Meeting of 20 August 2009, including discussion of UNC257, can be found at: <http://www.gasgovernance.com/NR/rdonlyres/B36EC578-E3AC-424E-B357-DFE2A4D98CC6/36530/ModificationPanelMinutes8420Aug09v10.pdf>

⁵ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁶ 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

⁷ 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 (as amended).

operational decision making and reduce the risk of a gas deficit emergency. The proposer believes that this should further relevant objective (a).

A number of respondents to the Joint Office's consultation (respondents) agreed that relevant objective (a) would be furthered by UNC257. One respondent noted that the revised arrangements would help market players to make more efficient use of their gas storage, whilst others noted that the modification would give market players greater clarity on the necessity of taking supply and demand side measures at particular points in time.

The change in the calculation of the Safety Monitor should avoid the Monitor being breached in situations where one type of storage is low but there is a plentiful supply of gas in other facilities. By moving to an aggregated Safety Monitor storage requirement and aligning the GBA trigger level and Safety Monitor calculations, UNC257 will allow the production of information more reflective of overall supply availability, which in turn should help market players improve the quality of their decision making when assessing their supply and demand side positions. We believe this will further relevant objective (a).

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

The proposer reiterates that the clarity and consistency brought about by the alignment of the GBA trigger and Safety Monitor calculations and the aggregation of the Safety Monitor storage requirement ought to facilitate better decision making by market participants in respect of their supply and demand side behaviour. The proposer believes that this contributes to effective competition between the relevant market participants.

However, one respondent considers that UNC257 may pose risks to relevant objective (d). The respondent is concerned that the proposed changes to the Safety Monitor, which is likely to reduce the number of facilities carrying inaccessible Safety Monitor gas, may result in the burden of potentially inaccessible gas being borne entirely or predominantly by Long Range Storage (LRS) customers, which in turn could undermine the commercial attractiveness of LRS (which is currently made up of a single facility) relative to other storage types. The respondent believes that this would not contribute to relevant objective (d).

We believe that the proposer is correct to identify the contribution to effective competition that the alignment of the GBA trigger level and Safety Monitor calculations should deliver. The greater clarity of information that these changes will allow ought to further effective competition as a result of better decision making by market players. We do however acknowledge that the new aggregated Safety Monitor storage requirement could reallocate some of the costs of inaccessible gas towards LRS facilities. Notwithstanding this, it should be recognised that, in practice, it is unlikely that the entire Safety Monitor storage requirement will ever fall on any single storage facility, since a single facility would not be able to meet the space and deliverability requirements of the Safety Monitor calculation. Given this, and the existence of compensation arrangements for curtailment of Safety Monitor gas, we are not convinced the effect is significant and have not been provided with evidence to suggest otherwise. If this remains a concern we note that it would be open to shippers who were concerned to raise a mod to alter the storage curtailment compensation arrangements.

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 proposer considers that aligning the UNC and Safety Monitor methodology would be consistent with this objective. One respondent states that aligning the UNC and Safety Monitor methodology could be seen as furthering relevant objective (f), although they argue that the existing wording of the UNC is compatible with the revised Safety Monitor methodology. The respondent argues that, by leaving the existing text as it stands, National Grid NTS would have the option of reverting to the old Safety Monitor methodology without having to raise a modification proposal in the future if they ever wished to revert.

We believe that relevant objective (f) is better facilitated by the proposed legal text of UNC257 as it brings the document in line with operational practices going forward and would ensure consistency in interpretation. Furthermore, we consider that it is desirable for any changes to GBA and Safety Monitor methodologies to be made transparently and in consultation with stakeholders; the modification process is one way to ensure this.

We note the incidental amendments which have been made to the legal drafting in Section Q of the UNC, some of which are not explicitly referenced in the FMR. Whilst we do not consider that these changes are necessary to effect the modification in the UNC, these have been made to reflect operational practices in connection with the modification and we are of the view that these changes better facilitate relevant objective (f). Going forward, however, we would encourage industry to reference reasons for making any incidental drafting amendments in the FMR.

Wider Statutory Duties⁸

We note that one respondent has concerns about the potential loss of supply diversity of Safety Monitor gas resulting from the implementation of UNC257. The respondent argues that the existing Safety Monitor arrangements, which allow flows to be curtailed from storage facilities if a breach of the two day deliverability threshold leads to the calling of a gas emergency, ensures that Short, Medium and Long Range Storage spread the risk of a facility failure. The proposed arrangements, which remove the explicit requirement for storage facility types to share the distribution of Safety Monitor gas, could lead to a reliance on Long Range Storage for Safety Monitor gas, which the respondent believes carries a degree of risk.

However, the proposer argues that the improved indicators of projected supply and demand will put market players and National Grid NTS in a better position to manage supply risks, which reduces the likelihood of a Network Gas Supply Emergency in the first instance.

UNC257 amends the UNC to reflect the changes that have already been made to the Safety Monitor methodology. Whilst we recognise that those changes may lead to a reallocation of Safety Monitor Gas between storage facilities and a potentially larger reliance on a smaller number of facilities than at present, there remain a number of storage facilities whose gas will contribute to the Safety Monitor requirement, and the capacity and deliverability requirements mean that a single facility could not, in practice, currently be liable for the entire volume of Safety Monitor gas. The diversity of facilities will increase further with the addition of planned new facilities over the coming years.

We also believe that this risk has to be assessed in the context of the better quality information on overall gas supply margins that market participants will have as a result of this modification. This should ensure that market players are better placed to ensure continuous operation of the gas system under normal conditions, making a Network Gas

⁸ The Authority's principal objective and general duties are set out in section 4AA of the Gas Act 1986 and section 3A of the Electricity Act 1989. Over time these provisions have been amended by numerous pieces of legislation, including the Utilities Act 2000, the Energy Act 2004 and the Energy Act 2008

Supply Emergency, and the need for Safety Monitor gas, less likely. We therefore believe that UNC257's positive contribution to security of supply outweighs any risks in respect of Safety Monitor gas supply diversity.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that proposed modification UNC257, Revision of the Gas Balancing Alert (GBA) Trigger / Safety Monitor, be made.

Andrew Wright
Senior Partner, Markets

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