




UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 727 416">UNC 0789A:</h1> <h2 data-bbox="134 450 1134 808">Enhancement of Options for National Grid in its role as Residual Balancer during the Operation of a Supplier Undertaking to Transporters</h2>	<div data-bbox="1209 309 1468 627"> <p>01 Modification</p> <p>02 Workgroup Report</p> <p>03 Draft Modification Report</p> <p>04 Final Modification Report</p> </div>
<p>Purpose of Modification:</p> <p>To provide an alternative to UNC 0789 to introduce temporary arrangements to allow greater flexibility for National Grid NTS to address delivery of gas to the Total System where, following the termination of a Shipper User providing shipping services to one or more Gas Suppliers, no new Shipper User (a ‘Registered User’) is appointed and one or more of the Suppliers acts in accordance with a Supplier Undertaking. These arrangements will apply until such time a new Registered User is in place.</p>	
<p>Next Steps:</p> <p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> treated as Urgent and should proceed as such under a timetable agreed with the Authority 	
<p>Impacted Parties:</p> <p>High: Suppliers, Shippers, National Grid NTS</p> <p>Low: Consumers</p> <p>None:</p>	
<p>Impacted Codes:</p> <p>None</p>	

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1 Summary

What

In a User Termination scenario where the relevant Shipper User provides shipping services for one or more Gas Suppliers, such Suppliers are required by their Supplier Licence to make timely arrangements with a 'new' Shipper to act as the Registered User for their respective consumers ('Supply Points'). Whilst continuity of shipping arrangements at all Supply Points is the preferred outcome, if there is a period during which no replacement Shipper User is appointed, industry arrangements are in place (via a 'Supplier Undertaking'). These arrangements provide for the Supplier to pay the Transporter all relevant charges for gas taken out of its pipeline system, from the date the Shipper User Termination takes effect. This covers both Transportation Charges and Energy Balancing Charges.

Why

The 'Supplier Undertaking' recognises that a Gas Supplier will not have established commercial arrangements to secure delivery of gas to the Total System to balance the demand of its consumers. Hence the Energy Balancing Charges (payable by Gas Supplier pursuant to the Undertaking) operate on the assumption of the relevant Gas Supplier delivering no (zero) gas to the Total System on each of the relevant days. Consequently, the Gas Supplier is effectively required to pay for all its consumers' gas demand at a unit rate more than the average cost of gas (a process known as 'cash-out').

In respect of physical delivery of gas, National Grid NTS in its role as residual balancer would typically then take system buy balancing actions to incentivise the delivery of additional supplies to the Total System to meet the demand of the relevant Supplier(s) and ultimately consumers. In taking such actions, National Grid NTS, as the residual balancer, is held cash neutral.

Under the terms of the UNC Shipper Users are individually incentivised to balance their supply and demand, with National Grid acting as the residual balancer via OCM actions. However, given the prevailing market conditions, with an increased risk of Shipper failure, there is a material increase in the likelihood of National Grid NTS having to act in respect of securing material volumes of gas to meet the demand of the relevant consumers, where a Supplier has to act in accordance with a Supplier Undertaking until a new Registered User is in place.

Shipper balancing is integral to the operation of the GB gas market and for this reason the residual balancer is restricted to short term actions on the OCM, in accordance with UNC TPD Section D. However, the potential requirement for the residual balancer, to take large actions in the OCM could result in liquidity issues that could result in extreme cash out prices (driven by the mechanics of the OCM action – not underlying supply-demand balance) for Shippers and increase system prices for all Users.

How

It is our view that National Grid NTS has the capability to enter into transactions outside of the OCM to balance the system as permitted under its Gas Transporter Licence Special Condition C. It is proposed that the UNC is modified to explicitly permit National Grid in its role as residual balancer to be required [permitted] on a time limited basis to enter a wider range of transactions, including non-OCM trades ahead of the day to meet the expected demand of relevant consumers supplied via Supplier Undertaking Arrangements.

We propose a "all reasonable endeavours" obligation on National Grid to acquire the forecast demand of the supply points registered to the Supplier subject to the Supplier Undertaking Arrangements. National Grid NTS should acquire supplies in the following way:

[Option 1

- any additional within day demand volumes to be acquired on the OCM
- 50% via the day ahead market
- 50% via longer term markets (Balance of month)]

[Option 2

Or alternatively, no limitations on National Grid on how it acquires the gas, instead relying on National Grid Transporter Licence Special Conditions Part C 9.14.4 which requires that balancing actions are conducted in an economic and efficient manner]

For the avoidance of doubt, all costs incurred due to the above, will be recovered via existing neutrality mechanisms.

2 Governance

Justification for Consideration as an Alternative to Modification 0789

Ofgem's open letter dated 17 February 2016 specifies guidance for the circumstances under which a Modification Proposal would be considered for urgent procedures. This specifies that an urgent Modification should be linked to an imminent or current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholders, a significant impact on the safety and security of the electricity and/or gas systems or cause a party to be in breach of any relevant legal requirements.

There is currently a heightened risk of Shipper Users ceasing to trade which may ship gas for multiple Suppliers that would require the residual balancer to take material action to support the supply/demand imbalance caused by Supplier(s) operating under Supplier Undertaking(s). In its role as Residual Balancer National Grid NTS only has access to the On the Day Commodity Market. There is a risk that if National Grid were to take significant action in the OCM this could result in extreme cash out prices due to the lack of liquidity in the OCM – not underlying supply-demand conditions. The main impact is that under current arrangements all of that demand will be sourced by National Grid NTS via the relatively thin and short term OCM market – rather than via a range of contractual arrangements.

UNC proposal 0789 has the effect of shifting the responsibility of managing Supplier Undertaking risk from National Grid to Shippers. UNC0789 recognises the issues identified in this proposal relating to OCM liquidity, but instead of proposing that National Grid NTS enters into non-OCM transactions it proposes that an additional balancing obligation is placed on active Shippers. It justifies this on the basis that Shippers have the primary role of maintaining system balance and are therefore best placed to secure potentially material quantities of additional supplies to the system. This is an assumption which has not been proven and certainly does not apply to every Shipper.

This Modification proposes to provide National Grid greater flexibility in sourcing gas for the purposes of meeting customer demand associated with Supplier(s) subject to Supplier Undertaking(s). Without this change there is a risk of significant commercial impacts on parties, in particular on cash-out prices and the potential level of balancing neutrality charges.

It is proposed that this modification be treated as an alternative to UNC 0789 and as such, follows the same timescales.

Requested Next Steps

This Modification should:

- be treated as an alternative to UNC 0789 and afforded Urgent status. It should proceed as such under a timetable agreed with the Authority.

3 Why Change?

In the event of the Termination of a Shipper User, any Suppliers utilising the services of that Shipper User are notified of such Termination. In these circumstances, Supplier Licence Condition 18.4 requires Gas Suppliers to “take all reasonable steps” to appoint a replacement Shipper User for its customers within 25 working days of receiving notice of the Termination of the Shipper User.

If such a Supplier does not immediately appoint a replacement Shipper User for the consumers it supplies, under the terms of Supplier Licence Condition 18.1 it is required to:

- provide the appropriate security to the Transporter; and
- pay the Transporter all relevant charges for gas taken out of its pipeline system from the date the Termination of the Shipper User takes effect.

The above referenced Supplier agreement to provide security and make payments to the Transporter is known as the ‘Supplier Undertaking’ and under the terms of Supplier Licence Condition 18.2, all Suppliers are required to provide such an undertaking to the Relevant Gas Transporters (i.e, to those networks utilised to convey gas to the relevant consumers).

The current terms of the Supplier Undertaking (including those made to National Grid NTS) set out that in respect of Energy Balancing Charges, the relevant Gas Supplier pay such charges as if the Shipper concerned (i.e., the Shipper User now Terminated) had “*not at any time during the relevant period introduced or arranged to introduce any gas into National Grid NTS’s pipeline system*”. Accordingly, the Supplier is assumed to have delivered no (i.e. zero) gas to the system to balance the demand of the consumers it supplies.

As a consequence, the relevant Supplier is required to pay a ‘cash out’ charge at the System Marginal Price (buy) (i.e. at a rate higher than the System Average Price) in respect of the volume of demand of the consumers it supplies. In practice, under current arrangements, and assuming all other Shipper Users in the market match their supply and demand, responsibility for securing the delivery of the gas to the Total System (for the required volumes) falls on National Grid NTS in its role as residual balancer for the Total System. This will also increase the imbalance costs for Shippers who are short, as they will be charged based on the SMP (buy) price.

Critique of UNC 0798

Summary of UNC 0798

UNC 0798 proposes to allocate a Supplier(s) forecast offtake demand, operating under a Supplier Undertaking(s) to all Shipper Users based on the aggregate of throughputs recorded during the second calendar month prior to the relevant day. This “share of the allocation” is then multiplied by the forecast demand of the Supply Points registered to the Supplier(s) operating under a Supplier Undertaking(s).

The forecast volume allocated to each Shipper User is notified on 16.00 on D-1 and updated at 13.00 on D.

In simple terms, UNC 0798 proposes to uplift each Shipper Users’ demand values putting their portfolios into a negative imbalance, where inputs are not increased by the same amount.

UNC 0798 impacts

- The proposal requires that shippers provide balancing services outside of balancing their own portfolios. This blurs the distinction between User balancing and residual balancing i.e. balancing supply and demand to meet overall system imbalances, rather than balancing against their individual demands which they had knowingly and contractually entered into
- It is assumed that all Shippers are able to acquire additional gas to meet their “uplifted” demand. This assumes that all Shippers are able to trade beyond the volumes for which they had contracted for on the same basis as others i.e. the costs of acquiring additional supplies may be greater for some Shippers than others, resulting in a detriment to competition. This may result in shippers running imbalances and “buying” gas at SMPbuy.
- The notification of demand values occurs on D-1, with final values notified on D. This requires that shippers will be limited to short-term spot markets to purchase gas. This is unlikely to be the most cost effective, or practical means of acquiring gas
- The retrospective method for calculating a shipper’s share of the demand allocation is arbitrary and may impose unwarranted costs and commercial issues for certain shippers e.g. a shipper which supplies gas solely from a LNG terminal will likely experience significant variations in UDQIs month on month. At the same time, a shipper may only make disposal trades to sell the gas on (e.g. on a daily basis). In such a scenario, the shipper could be allocated a relatively significant share of the attributed demand volume over a number of day(s) which it is required to match with supplies from alternative sources, and not consistent with its usual business practices or capabilities. This outcome would be detrimental to competition.
- It is proposed that shippers will receive compensation for their additional balancing activities via balancing neutrality credits. Where shippers are incurring different costs in the acquisition of supplies, it will result in winners and losers as balancing neutrality credits are smeared on the basis of throughput, and not on the basis of the costs of gas incurred by individual shippers, The allocation of balancing neutrality revenues would be detrimental to competition.
- The Supplier(s) operating under Supplier Undertaking(s) would be subject to SMP buy cash out charges to settle imbalances. The cost of gas to the Supplier(s) may undermine cash flows resulting in the Supplier(s) being unable to pay energy balancing invoices and ultimately cease trading. In this case, balancing revenues will be compromised resulting in lower balancing neutrality payments being allocated to all Shipper Users. This may cause financial difficulties for some Shippers and in accordance with the previous paragraph result in unequal cost burdens. This outcome would be detrimental to competition.

In our view it would be prudent for Supplier Undertakings to continue to be managed by the financially robust National Grid NTS but using a wider range of balancing tools. In its role as Residual Balancer, National Grid NTS is the best placed entity to manage unfulfilled demands while limiting its exposure to low liquidity in the OCM. Furthermore, and in contrast to the Shipper competition issues associated with Modification 0789, this approach will ensure that the costs of supplying those customers served by Supplier Undertakings are fairly shared across all Shipper Users.

Based on the analysis set out in Appendix 1, the Proposer believes that National Grid’s Gas Transporter Licence in combination with the System Management Principles does not preclude National Grid, in its role as Residual Balancer, from transacting in markets outside of the OCM. In order to permit it to do so for the purposes of “managing” Supplier Undertakings’ demand the UNC should be modified to reflect this additional requirement.

4 Code Specific Matters

Reference Documents

Gas Supplier Licence in the Ofgem e-public register

System Management Principles Statement

TPD V4: Discontinuing Users and Termination

TPD E5: Imbalance

Knowledge/Skills

Knowledge of

- Shipper User Termination scenarios and process; and
- User imbalance calculations

would be beneficial.

5 Solution

Event Trigger

It is proposed that the proposed arrangements take effect:

- from the date a Termination Notice issued to a Shipper User (the 'terminated Shipper') by a Transporter under TPD Section V4.3.3, or TPD X, takes effect; and
- where no new Registered User is in place (or appointed) for one or more of the relevant Supply Points until the point at which a new Registered User is in place; and
- a Supplier is acting in accordance with a Supplier Undertaking in respect of the relevant Supply Points.

The term 'relevant Supply Points' means those Supply Points where the terminated Shipper was the Registered User prior to the date the User Termination took effect and no Registered User is in place following that date. For the avoidance of doubt, where a User subsequently becomes the Registered User of a such Supply Point, it is no longer a 'relevant' Supply Point (for the purposes of this mechanism) from the date that registration takes effect.

Permitting National Grid access to non-OCM markets

National Grid will be subject to specific requirements where a Supplier Undertaking Event has been triggered. In such cases the actions it takes are included in the definition of Eligible Balancing Actions in UNC TPD C 1.4 (to ensure the costs expended are recoverable via balancing neutrality charges)

Following a Supplier Undertaking Event Trigger it is proposed that for each day (for the following month) National Grid NTS determines an ex-ante forecast demand for the relevant Supply Points. This forecast Supply Undertaking Demand ('SU Demand') is to be updated on a daily basis.

In relation to the forecast SU Demand National Grid NTS as residual balancer is to use all reasonable endeavours to source gas to using the following mechanisms:

[Option 1

- any additional within day demand volumes to be acquired on the OCM

- 50% via the day ahead market
- 50% via longer term markets (Balance of month)]

[Option 2

alternatively, no limitations on National Grid on how it acquires the gas, instead relying on National Grid Transporter Licence Special Conditions Part C 9.14.4 which requires that balancing actions are conducted in an economic and efficient manner]

The charges accrued as due by NGG under such transactions should be included in the calculation of "Aggregate System Payments" in section F4.4.3 and in the definition of "Balancing Transaction Charge" at D1.4.1, so that the costs are taken into account in the calculations of balancing neutrality charges under section at F4 and of system prices under section F1.2

For the avoidance of doubt these arrangements apply solely to forecast Supply Undertaking demand and do not apply to other balancing actions.

All costs incurred by National Grid NTS are to be recovered via existing neutrality mechanism – including any costs associated with the disposal of gas acquired to meet a forecast demand that is no longer required.

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Consumer Impacts

Under existing arrangements, the costs of Residual Balancing actions are currently socialised across all Shipper Users. The proposed approach would enable greater optimisation of those costs reducing the extent of such costs passed through to consumers without detriment to competition

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None
Lower bills than would otherwise be the case If National Grid NTS is able to secure the additional supplies at a lower unit cost, via a range of markets compared to the OCM, then this should reduce the extent of costs passed through to consumers	Positive
Reduced environmental damage	None

Improved quality of service	None
Benefits for society as a whole	None

Cross-Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

None

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) 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.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The Modification furthers Relevant Objectives and d), as follows:

a) Efficient and economic operation of the pipe-line system;

The proposed changes in this Modification would introduce a more efficient and potentially more economic means of securing delivery of additional supplies of material volumes of gas to the Total System to balance the demands from the consumers of a Supplier that is acting in accordance with a Supplier Undertaking.

c) Efficient discharge of licensee's obligations

The proposed changes in this Modification will align the UNC with the broader National Grid Transporter Licence conditions to balance the System in an economic and efficient way through the purchase of gas through alternative means beyond the OCM.

d) Securing of effective competition between relevant Shippers;

The proposed changes can be expected to reduce the overall cost of the residual balancer acquiring additional volumes to balance the demand from Supplier Undertakings, without increasing the risk of Shipper failure and reduction of Shipper competition. Further, it ensures that Shippers are treated equally via neutrality, without creating "winners and losers" depending on the cost of sourcing gas as proposed in UNC 0789.

8 Implementation

Implementation is sought as soon as practicable given the current difficulties being encountered within the Gas Shipping and Gas Supply Markets.

There is no lead time required for Implementation hence this Modification could be implemented as soon as practicable following an Authority direction to implement it.

9 Legal Text

None

10 Recommendations

Proposer's Recommendation

This Modification should be treated as Urgent and should proceed as such under a timetable approved by the Authority.

11 Appendix 1: Assessment of Existing Obligations on National Grid regarding gas trading rights

National Grid Gas's Gas Transporters Licence

Part C of Special Condition 9.14 provides as follows:

- 9.14.3 Subject to paragraph 9.14.4, the licensee must not ... on its own account ... purchase, enter into agreements for or otherwise acquire capacity rights, gas or gas derivatives with the intention of subsequently selling, assigning or otherwise disposing of such assets to third parties....
- 9.14.4 The prohibition in paragraph 9.14.3 will not apply if the transactions referred to in paragraph 9.14.3 are undertaken:
- (a) ...
 - (b) with the prior consent of the Authority;
 - (c) in accordance with the licensee's functions under the Network Code; or
 - (d) by the licensee on its own account for the purpose of facilitating balancing management or Constraint Management provided that such transactions:
 - i. are conducted on economic and efficient terms; and
 - ii. facilitate the economic and efficient operation of the Transportation System.

In other words, if the Network Code permits National Grid Gas (NGG) to buy gas, or is modified to permit it to do so, there is nothing in the Licence to prevent National Grid from buying gas in response to potential system imbalances due to anticipated non-delivery of gas by a failed shipper.

Even without such changes to the Network Code then provided that the purchase of gas is for the purposes of "balancing management" (i.e. "the balancing of the total system through the management of inputs and offtakes of gas to and from the total system") the purchase would be permissible under the Licence, though subject to NGG's duty to conduct the purchase on economic and efficient terms and in order to facilitate the economic and efficient operation.

Indeed, it could be said that given its general duties in that regard under the Act and its licence NGG should be seeking to enter into purchase transactions to hedge against the consequence of termination of a shipper which has a large portfolio of supply points, and seeking to remove any impediment in the Code that prevents it from doing so.

Under Special Condition (SC) 9.19.2 NGG is required to operate the system in "an efficient, economic and co-ordinated manner."

Under SC 9.19.5 NGG is obliged to keep in place a [Procurement Guidelines Document](#) setting out:

- (a) the kinds of System Management Services that it may be interested in purchasing during that Regulatory Year; and
- (b) the mechanisms by which the licensee envisages purchasing, entering into agreements for the provision of, or otherwise acquiring those services.

The Procurement Guidelines are for information purposes only and have no binding effect.

Special Conditions C 9.19.8 and 9 require NGG to have in place and comply with a System Management Principles Statement “setting out the principles and criteria by which [NGG] will at different times and in different circumstances determine:

- (a) which System Management Services [NGG] will use to assist it in the operation of the NTS; and
- (b) when and for what purpose the licensee would resort to measures not involving the use of System Management Services in the operation of the NTS.”

System Management Services include “services in relation to the balancing of gas inputs to and gas offtakes from the NTS. They include, but are not limited to, Eligible Balancing Actions (as defined by the Network Code) and “Eligible Balancing Action derivatives”.

Procurement Guidelines Document

The [Procurement Guidelines Document](#) states that System Management Services “may be physically or financially based services or contracts, and may include forwards, futures and options contracts in respect of both gas (NBP or locational) and/or capacity and other derivatives”.

Section 2 of Part B of the Guidelines states that “in contracting for the provision of System Management Services, NGG will endeavour to purchase from the most economic and efficient sources available at that time, having regard to the attributes of such service and delivery, which may include assessed liquidity of the market, reliability, quality, quantity, location, lead time, deliverability, and diversity”

Part B, section 3 states that “NGG will look to enter into contracts in order to complement or substitute for trading system use, when:

- NGG anticipates there is insufficient service availability via the trading systems to meet requirements, and/or
- NGG considers that such contracts will lead to a reduction in cost or a more favourable risk profile for the community and/or NGG, and/or
- NGG considers that the required operational characteristics are not available through the trading systems.

Part D describes the procurement process:

Where NGG is involved in procuring physical services and sufficient competition exists, NGG will normally seek to contract for services via a market mechanism. In other circumstances, bilateral contracts may be entered with the service providers. In all circumstances, NGG will be mindful of its Licence obligations when entering these agreements.

Table 1 sets out the mechanisms by which it expects to procure different System Management Services. For gas balancing these comprise:

- On the Day Commodity Market (title, physical, locational and DSR)
- Over the Counter / brokered markets
- Other exchanges (e.g. ICE, Spectron Online)
- Tenders
- Bilateral agreements.

System Management Principles Statement

Part C of NGG’s [System Management Principles Statement](#) states that when there is a National Requirement to use system management measures (i.e. where the requirement is one that affects the whole NTS) occurs, NGG’s primary tools are:

- the OCM;

- the Over-the-counter (OTC) markets when taking Eligible Balancing Actions for a gas Day on or for which a Gas Balancing Notification has been triggered, as described in Part D.5;
- Operating Margins; and
- Demand Side Response

Part D1 states that “NGG may use the ICE Endex operated On-the-day Commodity Market (OCM), or any other market, mechanism or contract to buy and sell gas for the purposes of system management.”

Part D4 reads as follows:

Residual system balancing

To maintain the safe and efficient operation of the Total System, NGG, as residual system balancer, will enter trades with Users via the OCM (and/or OTC). NGG will, where necessary, accept and/or post bids and/or offers on the OCM/OTC. In assessing the economics and efficiencies of a particular bid and/or offer, NGG will consider whether the combination of quantity, price and timing is likely to result in a positive impact on the supply-demand imbalance for the gas Day (or days) that are being assessed.

Part D6 permits Eligible Balancing Actions in respect of multiple days:

Multi-Day Offers

Where assessed as economic and efficient to do so, NGG might undertake an Eligible Balancing Action on or in relation to a specific gas Day for which a GBN is in place by accepting a ‘multi-day’ offer either on the OCM and/or through an OTC bilateral contract(s).

Part E of the Statement states that “rather than wait for imminent gas flows to imply either a National or Localised Requirement for system management actions, it may be appropriate for NGG to deploy tools ahead of the gas Day”. It goes on to state that “NGG will seek to develop and implement such tools wherever it appears viable, taking account of its obligations to maintain a safe and secure system and its risk/reward profile defined in the context of NGG incentive schemes. NGG may also seek to develop new tools and liquidity to improve the effectiveness, range or cost of system management services in the longer term. The deployment of such tools will be at the discretion of NGG and guided by considering the incentive schemes, subject to NGG’s other obligations.”

Network Code

Section D of the Transportation Principal Document Deals with balancing actions.

Eligible Balancing Actions are defined by D 1.4.1 as

- (i) Market Balancing Actions; and
- (ii) other actions provided for in the Code to be 'Eligible Balancing Actions'.

Market Balancing Actions Balancing include Balancing Transactions effected on the On the Day Commodity Market (OCM) as well as Non-Trading System Transactions agreed outside of the OCM with Users who are not Trading Participants entitled to participate in the OCM. It is likely that the practical effect of this is that Market Balancing Actions are by and large confined to transactions on the OCM, since one would expect that the majority of shipper capable of supply gas to make up for the shortfall associated with a failed shipper are likely to be OCM participants. There is no provision in the Code specifying any other type of transactions as an Eligible Balancing Actions.

The OCM is limited to within day and day ahead transactions, save where a Gas Balancing Notification can be issued in respect of a day in which case the transactions may also cover up to 6 consecutively following days.

If it has issued a Gas Balancing Notification in respect of a Day, NGG may also enter into Non-Trading System Transactions in respect of that day. As these transactions are agreed outside of the OCM) they need not be limited to within day or day ahead (and the following 6 days, and they could be entered into for a series of days in respect of which Gas Balancing Notifications had been issued. However the fact that Non-Trading System Transactions can only be entered into with Shippers who do not participate in the OCM limits NGG's access to the wider market.

Under D 5.9.7 NGG may issue a Gas Balancing Notification where "during or before a Gas Flow Day, an event affecting either supply or demand, for the Gas Flow Day in question" is notified to it or it otherwise becomes aware of circumstances, that may in its reasonable opinion result in the quantities on the Total System being insufficient for the purpose of meeting the Forecast Total System Demand. The issue of such a Gas Balancing Notification also indicates the start of a Voluntary DSR Period for the purposes of Section D5.

Conclusion

NGG's current practice with respect to responding to predictable shortages of gas supply associated with the failures and termination of gas shippers is grossly inefficient and falls well short of the standard required by the System Management Principles Statement and its licence. The Network Code's definition of Eligible Balancing Actions, Market Balancing Actions and Balancing Transactions unnecessarily limits NGG to use of the OCM or transactions with such shippers as do not actually participate in the OCM, even where a Gas Balancing Notification has been issued, and conflicts with NGG's duties under the Statement.

Part E of the System Management Principles permits National Grid to deploy tools ahead of the gas Day, effectively at its discretion, which broadens the scope for accessing non-OCM markets for the purposes of managing a National or Localised Requirement.

In short, National Grid's Licence in combination with the System Management Principles does not preclude National Grid from using a variety of tools to manage the System including in its role as the Residual Balancer, however, for it to access these tools (those beyond transacting on the OCM) the UNC should be modified to establish the basis upon which they might be used.

A new category of Eligible Balancing Action should be added to the Code under which NGG is entitled to enter into transactions to procure gas as provided for by the System Management Principles Statement in the event that NGG reasonably expects a failure, or termination of a Shipper, will result in the quantities on the Total System being insufficient for the purpose of meeting the Forecast Total System Demand. Such gas should be procured by NGG using prudent trading practices for delivery on any day on which it reasonably expects such a shortfall of a material magnitude to occur. The charges accrued as due by NGG under such transactions should be included in the calculation of "Aggregate System Payments" in section F4.4.3 and in the definition of "Balancing Transaction Charge" at D1.4.1, so that the costs are taken into account in the calculations of balancing neutrality charges under section at F4 and of system prices under section F1.2. These changes would bring the Network Code in line with NGG's Procurement Guidelines and System Management Principles Statement and better facilitate NGG's efficient, economic and co-ordinated operation of the system

The cost of NGG buying gas to balance the system is ultimately be met by shippers through Balancing Neutrality Charges.