

| UNC Final Modification Report | | At what stage is this document in the process? |
|---|--|---|
| <h1>UNC 0685:</h1> <h2>Amendment of the UNC term ‘Gas Deficit Warning’ to ‘Gas Balancing Notification’</h2> | | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div> |
| <p>Purpose of Modification:</p> <p>To change the name of the UNC defined term ‘Gas Deficit Warning’ to ‘Gas Balancing Notification’.</p> | | |
|  | The Panel recommends implementation. | |
|  | High Impact: Gas Shippers and Traders | |
|  | Medium Impact: National Grid NTS | |
|  | Low Impact: OCM Market Operator, Gas Consumers, and Distribution Networks | |

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| Timetable | | | |
| Modification timetable: | | | |
| Proposal presented to Panel | 18 April 2019 | | |
| Draft Modification Report issued for consultation (13 Business Days) | 18 April 2019 | | |
| Consultation Close-out for representations | 21 May 2019 | | |
| Final Modification Report available for Panel | 24 May 2019 | | |
| Modification Panel decision | 20 June 2019 | | |

1 Summary

What

National Grid NTS may issue a Gas Deficit Warning (GDW) in the event of a national gas supply / demand differential that presents a material risk to the end of day balance on the NTS. The purpose of a GDW is to signal to gas market participants that they either need to provide more gas or reduce demand.

On 01 March 2018, National Grid NTS issued the first ever GDW in response to coincident events involving cold weather, high gas demand, and multiple supply failures. Whilst the GDW had its desired effect on this day as the risk of an end-of-day system imbalance was addressed, National Grid NTS considers that the term 'Gas Deficit Warning' does not adequately reflect the purpose of the message and was, unhelpfully, taken out of context by some market observers. National Grid NTS considers that such reporting fuelled a sense of panic in the market that was unwarranted, potentially resulting in higher within-day gas prices than would otherwise have been the case. Consequently, National Grid NTS considers that the term presents a risk of uneconomic outcomes and detrimental impact on the GB gas market.

Why

This Modification is needed to mitigate the above risk for Winter 2019/20. If this Modification is not implemented, there is a risk of unwarranted market concern, inaccurate reporting, and unnecessary public perception of crisis in the event that another GDW is triggered.

How

It is proposed that all references to the term 'Gas Deficit Warning' in UNC are replaced with the term 'Gas Balancing Notification' and all references to 'GDW Withdrawal Notice' are replaced with 'GBN Withdrawal Notice'.

2 Governance

Justification for Authority Direction

This Modification is likely to have a material effect on:

- (aa) existing or future gas consumers; and
- (dd) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies.

(aa) National Grid NTS foresees a material effect upon gas consumers; both directly, from a reduced risk of exposure to within-day gas price spikes resulting from a proportionate market response to this market message, and also indirectly, by protecting the integrity of the liberalised GB gas market from what may otherwise be alarmist commentary about the security of GB's gas supply.

(dd) This Modification will facilitate a more accurate understanding about the real-time situation of the system in the event of a material imbalance between gas supply and gas demand, thereby enabling the market to respond more efficiently. A more accurate description of this market message is expected to reduce the risk of exaggerated reporting if and when such a message issued in the future, thereby avoiding a public perception of crisis associated with the security of GB's gas supply.

Requested Next Steps

The content of this Modification has already been discussed on several occasions with the industry as part of Modification 0669R's development 'Review of the Gas Deficit Warning and Margins Notice Arrangements'.

This Modification also featured as a 'pre-mod discussion' at the March 2019 meeting of the Transmission Workgroup. At this meeting, National Grid NTS received a clear preference for this Modification to proceed direct to consultation; the creation of a Workgroup was considered to be neither desirable nor necessary.

It is therefore recommended that this Modification should:

- be considered a material change and not subject to self-governance
- in line with the recommendation of the Transmission Workgroup, proceed direct to consultation.

3 Why Change?

National Grid NTS may issue a Gas Deficit Warning (GDW) in the event of a national gas supply / demand differential that presents a material risk to the end of day balance on the NTS. The purpose of a GDW is to announce to gas market participants that they either need to provide more gas or reduce demand. It is a market tool used in normal market operation as an indication to the market that National Grid NTS is not seeing a sufficiently timely balancing response to, most likely, an unforeseen event(s) and it therefore also provides National Grid NTS with the facility to access further balancing tools to resolve the mismatch.

A GDW does not necessarily mean there is insufficient gas available, nor that the declaration of a Gas Deficit Emergency is imminent. Even if this were the case, there are a number of steps to go through before domestic gas customers would be impacted.

Modification 0415 'Revision of the Gas Balancing Alert (GBA) Arrangements' (implemented on 01 December 2012) introduced the GDW term into the UNC. It did so by replacing the single GBA term with the Margins Notice and GDW terms in order to provide a more granular indication of the time criticality of the forecast supply / demand imbalance. In National Grid NTS' view, this amendment from one alert mechanism to two remains appropriate; however, in the light of operational experience as a result of triggering a GDW and observing the consequences, the GDW term would benefit from revision.

On 01 March 2018, National Grid NTS issued its first ever GDW in response to coincident events involving cold weather, high gas demand, and supply failures. Whilst the GDW had its desired effect on this day as the risk of an end-of-day system imbalance was addressed, National Grid NTS considers that the term 'Gas Deficit Warning' does not adequately reflect the purpose of the message and that, consequently, the term presents a risk of uneconomic outcomes and detrimental impact to the GB gas market.

This Modification is needed to mitigate the above risk for Winter 2019/20. If this Modification is not implemented, there is a risk of unwarranted market concern, inaccurate reporting, and unnecessary public perception of a gas security of supply crisis in the event that another GDW is triggered.

As the gas and electricity markets have become increasingly connected in recent years, disruption on the gas system may also have consequential impacts on the electricity market.

4 Code Specific Matters

Reference Documents

Information about National Grid's gas notifications is contained on its website at:

<https://www.nationalgrid.com/uk/gas/balancing/margins-notices-mn-and-gas-deficit-warnings-gdw>

Knowledge/Skills

A working knowledge of National Grid NTS' procedures and tools to provide notice to GB gas market participants of a possible imbalance between gas demand and supply, together with knowledge of the events of 1st March 2018 and immediate reporting thereof would be helpful in assessing this Modification.

<https://www.nationalgridgas.com/sites/gas/files/documents/Gas%20Ops%20Forum%20full%20pack%20-%20April%202018.pdf>

5 Solution

Replace the UNC defined term 'Gas Deficit Warning' with the term 'Gas Balancing Notification'.

Replace the UNC defined term 'GDW Withdrawal Notice' with the term 'GBN Withdrawal Notice'.

Correct a typographical error in the section of UNC TPD section V5.9.7(c) (i) to replace the word 'and' with 'an'.

6 Impacts & Other Considerations

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

None.

Consumer Impacts

National Grid NTS expects that end consumers will benefit from this Modification if a message that is currently described as a GDW is issued again. This benefit is likely to accrue both directly, from a reduced risk of exposure to within-day gas price spikes resulting from a proportionate market response to this market message, and also indirectly, by protecting the integrity of the liberalised GB gas market from what may otherwise be alarmist commentary about the security of GB's gas supply.

Cross Code Impacts

This Modification is consistent with Modification GC0093 to the Grid Code, 'Assessment of System Warnings', which amended the term 'Notification of Inadequate System Margin' to 'Electricity Margin Notice' in September 2016. A link is provided here: <https://www.nationalgrideso.com/codes/grid-code/modifications/gc0093-assessment-system-warnings>.

EU Code Impacts

None.

Central Systems Impacts

None.

National Grid Gas Transporter Licence

The term ‘Gas Deficit Warning’ also appears in the National Grid Gas Transporter Licence, under Special Licence Condition 8I: ‘Development and Implementation of a Demand Side Response methodology for use after a Gas Deficit Warning’. Therefore, in the event that this Modification is implemented, a consequential Licence change would be required at the appropriate time.

Gas Demand Side Response Methodology

The term ‘Gas Deficit Warning’ also appears in National Grid NTS’ Gas Demand Side Response Methodology statement. Special Condition 8I of the National Grid Gas Transporter Licence requires that this methodology statement is subject to an annual review, therefore National Grid NTS proposes that these amendments should be made when this methodology is reviewed in 2019/20.

7 Relevant Objectives

| Impact of the Modification on the 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. | None |
| 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. | None |
| 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. | Positive |
| 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 |

National Grid NTS considers that this Modification would better facilitate the following relevant objectives:

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

This Modification will facilitate a more accurate description of this particular market message and thereby provide greater clarity to GB market participants about the real-time situation of the system in

the event of a material imbalance between gas supply and gas demand. A better understanding of what message National Grid NTS is communicating should enable the market to respond more efficiently, limiting the need for National Grid NTS to intervene in the market as residual balancer and thereby enabling the system to be operated more efficiently.

- 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.

More accurate terminology for this market message will better facilitate price discovery that reflects market fundamentals, thereby helping to appropriately incentivise relevant suppliers to make adequate provision in their gas supply arrangements for peak demand days.

8 Implementation

No material implementation costs are expected. Shippers and suppliers would need to change the term accordingly wherever it appears in their contracts.

No specific implementation date is proposed, however, implementation by 1st October 2019 would be desirable to realise the benefits of this Modification for winter 2019/20.

9 Legal Text

Text Commentary

Amend all references in UNC to 'Gas Deficit Warning' to 'Gas Balancing Notification'.

Amend all references to 'GDW Withdrawal Notice' to 'GBN Withdrawal Notice'.

Amend a typographical error in UNC TPD section V5.9.7(c) (i), to replace the word 'and' with 'an'.

Text

Transportation Principal Document, Section D: Operational Balancing and Trading arrangements

Amend paragraph 3.1.2 as follows:

"Subject to paragraph 4.1.1, National Grid NTS may only enter into Non-Trading System Transactions only in relation to a Gas Flow Day in respect of which a ~~Gas Deficit Warning~~ Gas Balancing Notification is in place."

Amend paragraph 4.1.1 as follows:

"Where a User makes a Market Offer or a Non-Trading System Offer to National Grid NTS in relation to a Gas Flow Day in respect of which a ~~Gas Deficit Warning~~ Gas Balancing Notification is in place and up to six (6) subsequent consecutive Gas Flow Days, and it is a condition of accepting such Market Offer or Non-Trading System Offer that National Grid NTS and the User makes (or, in the case of a Market Offer, the Trading System Operator makes on their behalf) the appropriate Trade Nominations for each such Gas Flow Day, National Grid NTS shall be entitled to accept such a Market Offer or Non-Trading System Offer and accordingly enter into a Market Transaction or Non-Trading System Transaction (any such Market Transactions or Non-Trading System Transactions shall be known as "**Multi-Day Balancing Transactions**")."

Amend paragraph 5.1.1(d) as follows:

““**Voluntary DSR Period**” is the period between a ~~Gas Deficit Warning~~ **Gas Balancing Notification** being issued by National Grid NTS in accordance with Section V5.9.5 and the earlier to occur of:

- (i) the issue by National Grid NTS of a ~~GDW~~ **GBN** Withdrawal Notice in accordance with Section V5.9.6; and
- (ii) the declaration by the NEC of Stage 2 of a Gas Deficit Emergency”

Amend paragraph 5.1.2(d) as follows:

“National Grid NTS and Trading Participants shall not have visibility of such DSR Market Offers until a ~~Gas Deficit Warning~~ **Gas Balancing Notification** is issued in accordance with Section V5.9.5;”

Transportation Principal Document, Section V: General

Amend paragraph 5.9.4 as follows:

“Where a Margins Notice is issued, it shall remain in force until the end of the Gas Flow Day to which it is applicable, unless superseded by a ~~Gas Deficit Warning~~ **Gas Balancing Notification**.”

Amend paragraph 5.9.5 as follows:

“National Grid NTS may issue (by means of publication on its website) a ~~warning~~ **notification** (“~~Gas Deficit Warning~~” (“**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 National Grid NTS, or National Grid NTS otherwise becomes aware of circumstances, that may (in the reasonable opinion of National Grid NTS) result in the quantities of gas on the Total System being insufficient for the purpose of meeting the Forecast Total System Demand. The issue of a ~~Gas Deficit Warning~~ **Gas Balancing Notification** by National Grid NTS shall indicate the start of a Voluntary DSR Period for the purposes of Section D5.”

Amend paragraph 5.9.6 as follows:

“Where a ~~Gas Deficit Warning~~ **Gas Balancing Notification** is issued, it shall remain in force until National Grid NTS issues a ~~GDW Withdrawal Notice~~ **GBN Withdrawal Notice**.”

Amend paragraph 5.9.7(c) as follows:

“(c) “~~GDW Withdrawal Notice~~ **GBN Withdrawal Notice**” means a notice from National Grid NTS issued where National Grid NTS determines (in its reasonable opinion) that:...”

Amend paragraph 5.9.7 (c) (i) as follows:

“(i) there is no longer ~~and~~ an actual or imminent risk to system safety; or”

10 Consultation

Panel invited representations from interested parties on 18 April 2019. The summaries in the following table are provided for reference on a reasonable endeavour’s basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 7 representations received 2 supported implementation, 2 offered qualified support, 2 provided comments and 1 was not in support

Representations were received from the following parties:

| Organisation | Response | Relevant Objectives | Key Points |
|--------------|----------|------------------------------|--|
| Centrica | Comments | a - none e - none | <ul style="list-style-type: none"> • Feels it is not clear whether the proposed change will have an impact (either positive or negative) on relevant objectives; a) or e) as any test of whether a name change, as proposed will have the desired impact is necessarily subjective. • Believes as the name change will likely have a media-related effect, it is appropriate that the Authority reflects on this and makes the decision on implementation. |
| EDF Energy | Oppose | a – negative e – negative | <ul style="list-style-type: none"> • Feels there is little evidence in the Modification to support the assertion that gas prices were higher than if the GDW name was different. • Believes discussions with the gas industry in 0669R Request “Review of GDW and Margins Notice (MNs) Arrangements” have not concluded this was the case or that it needed changing. Indeed, the majority view there was that the GWD did exactly what it was supposed to do. • Understands that National Grid NTS will soon be raising a Modification with a new more robust MNs methodology, so feels this Modification is premature until the broader conclusion of the review are understood. • Notes the 01 March 2018 was the first and only time the GDW has been used and therefore it is difficult to draw definitive conclusions. • Believes that constantly changing these notifications may confuse the market as to what situation (Balancing or Deficit) they really reflect. • Suggests GB alerts need to be consistent with these EU market warnings to ensure gas flows to the right markets on those days to ensure that consumers are not unnecessarily at risk of disconnection. • Proposes on balance, this Modification will not further any Relevant Objectives and could actually worsen them, as the GDW did exactly what it was designed to do (ensured gas supplies replenished a heavily depleted system as quickly as possible) at reasonable prices. • Understands there has unfortunately been no official report into the events of the 1st March 2018, which given its severity and potential impact on GB consumers and economy is disappointing. |

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| | | | <ul style="list-style-type: none"> • Agrees with the justification for an Authority Direction as it could have a material impact on consumers and security of supply. • Feels due to the lack of justification for this proposal and overwhelming evidence to suggest it could worsen the GB gas market in the interest of the consumers, implementation is not supported. • Believes the industry would face some costs incurred from the required changes in relation to the name change regarding National Grid NTS's documentation, Licence change, website and other associated publications. • Feels there is a lack of analysis and supportive evidence for changing such an important market notification. |
| Energy UK | Comments | a – none e - none | <ul style="list-style-type: none"> • Feels is not clear that there will be a positive impact on relevant objectives a) and e). • Believes there is no evidence that during the 'beast from the east' prices were higher than if the Gas Deficit Warning (GDW) had a different name. • Proposes as a GDW is issued infrequently and on each occasion has prompted an appropriate response from the market to avoid further deterioration in the balance of the system. The market has worked as it should. Changing the name risks a reduced response, which could lead to unintended consequences. • Suggests that market participants and the media will soon become familiar with the new name such that the market response may appear, but so will that from the media. It is therefore difficult to see what this name change will achieve. • Appreciates the Gas market already has a Margins Notice which was not issued during the 'beast from the east'. Work is progressing separately to review the triggers for this. • Believes if this work leads to an earlier notice of potential system imbalance, then is more likely to impact the market and media response to any difficult supply conditions than a name change for the GDW. • Believes the industry would face some costs incurred from the required changes in relation to the name change regarding National Grid NTS's documentation, Licence change, website and other associated publications. • Agrees with the justification for an Authority Direction • Prefers for the implementation to be aligned to the wording |

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| | | | changes in the UNC and Licence conditions. |
| National Grid NTS | Support | a - positive e - positive | <ul style="list-style-type: none"> • Supports implementation because the current ‘Gas Deficit Warning’ term implies that there is insufficient gas available to meet demand which may not necessarily be the case. • Feels the proposed ‘Gas Balancing Notification’ term is a more accurate description in that when such a notice is issued, it is a signal to GB gas market participants to either put more gas into the network or reduce demand. • Believes that the Modification is likely to have the material effects and therefore supports Authority Direction. • Suggests implementation by 01October 2019 would be desirable to realise the benefits of this Modification for this winter. • Understands the need to update the term in a number of National Grid NTS’s publications, website and internal operational procedures • Confirms there would not be any analysis, development or ongoing costs. |
| Northern Gas Networks | Support | a - positive e - positive | <ul style="list-style-type: none"> • Supports the proposal as it seeks to amend the name of the notice to a more reflective one, reducing the likelihood of misinformation to end customers, in the event of it being issued. • Understands there is also a typographical amendment, the correction of which does not change the meaning or intent of the Code. • Supports Authority Direction due to the name of notice change which could potentially lead to confusion for customers. • Suggests implementation by 01October 2019 would be desirable to realise the benefits of this Modification for this winter and would prefer for the implementation and wording Licence changes to be aligned. |
| SGN | Qualified Support | a – positive e – positive | <ul style="list-style-type: none"> • Offers qualified support for the Modification and are supportive of the name change and feel in the future the name of ‘Gas Balancing Notification’ would not be subjected to negative media coverage. • Feels the change may not necessarily make a difference to how much additional gas is made available in times of a crisis. • Agrees with the justification for an Authority Direction • Believes implementation by 01 October 2019 would be |

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| | | | desirable, bearing in mind the changes needed to the wording of the Licence conditions, website and other associated documentation. |
| ScottishPower | Qualified Support | a – comment e - comment | <ul style="list-style-type: none"> • Feels the proposal for change has been based only upon a subjective assessment of the potential impact of the current terminology, with little objective evidence having been advanced. • Believes the change is also largely targeted at public/media perception, rather than industry parties who should have a greater understanding of the underlying significance of the notifications, as such, the Relevant Objectives are difficult to assess. • Agrees with the justification for an Authority Direction. • Agrees implementation by 01 October 2019 would be desirable to ensure the new arrangements were in place for winter 2019/20. |

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0685 would change the name of the UNC defined term ‘Gas Deficit Warning’ to ‘Gas Balancing Notification’.

Panel Members considered the representations made noting that, of the 7 representations received, 2 supported implementation, 2 offered qualified support, 2 provided comments and 1 was not in support.

Panel Members noted that 0685 has come out of 0669R Review Group which is itself ongoing.

Panel Members determined that no new issues were raised in consultation.

Consideration of the Relevant Objectives

Panel Members questioned whether any relevant objectives were impacted and after discussion, most Panel Members concluded that the change in the name of the defined term will contribute to more efficient working of the network (relevant objective a) by providing a more accurate description of the situation giving greater clarity to the market.

Some Panel Members expressed concern that there is no evidence that the current name caused or is causing problems.

Another Panel Member expressed concern that the ‘dumbing down’ of the name of the warning may have a detrimental impact on the desired outcomes for the warning, in terms of shipper actions following the warning

notice. Panel Members noted the comments made by EDF regarding 'confusing the market' but most Panel Members did not agree with that view.

Determinations

Panel Members voted with 9 votes in favour (out of a possible 14), to implement Modification 0685.

12 Recommendations

Panel Recommendation

Panel Members recommended that Modification 0685 should be implemented.