

Modification proposal:	Uniform Network Code (UNC)685: Amendment of the UNC term 'Gas Deficit Warning' to 'Gas Balancing Notification'		
Decision:	The Authority ¹ directs this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	24 July 2019	Implementation date:	1 October 2019

Background

A Gas Deficit Warning (GDW) is issued by National Grid NTS in the event that they foresee a potential risk to the physical end-of-day gas balance, arising from a significant supply/demand event. It can be issued in advance of, or during, a gas day. The purpose of a GDW is to signal to gas shippers (Shippers) that they should seek to either reduce their demand or increase their supplies, depending on their position in the market (i.e. to balance their portfolio). A GDW does not necessarily mean there is insufficient gas available, and that the declaration of a Gas Deficit Emergency is imminent. The first GDW to be issued by National Grid NTS, since the name came into effect in 2012³, occurred on 1 March 2018. This was issued in response to coincident events involving cold weather (so-called 'Beast from the East'), high gas demand and supply interruptions.

The modification proposal

UNC685 seeks to change the term of a GDW to a 'Gas Balancing Notification' (GBN). The proposer, National Grid NTS, believes that this will better facilitate the relevant objectives (a)⁴ and (e)⁵ of the UNC. In their view the change would result in a more accurate description of the market situation, resulting in more economic outcomes because:

- Shippers would respond more efficiently, reducing the need for National Grid NTS to act (in their role as the residual balancer), and
- The term GBN will result in better price discovery, incentivising Shippers to make adequate provision in their gas supply arrangements for peak demand days.

UNC Panel⁶ recommendation

At the UNC Panel meeting on 20 June 2019, a majority of the UNC Panel considered that UNC685 would better facilitate the UNC objectives and the Panel therefore recommended its approval. After discussion amongst Panel members, most Panel members considered that the change in the name would better facilitate UNC objective (a).

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

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

³ [UNC 415: Revision of the Gas Balancing Alert Arrangements \(UNC415\)](#)

⁴ (a) the efficient and economic operation of the pipe-line system to which this licence relates

⁵ (e) so far as is consistent with sub-paragraphs (a) to (d), the 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

⁶ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR), dated 20 June 2019. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR⁷. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;⁸ and
- directing that the modification be made is consistent with our principal objective and statutory duties.⁹

Reasons for our decision

The Joint Office of Gas Transporters received seven responses to its consultation on UNC685. Of these, two supported implementation, two offered qualified support, two provided comments, and one opposed.

We note the support for UNC685 from the Panel, and the majority of respondents, and agree that this modification proposal will better facilitate UNC objective (a), and has a neutral impact on the other relevant objectives.

Objective (a) the efficient and economic operation of the pipe-line system to which this licence relates

We note that National Grid NTS view the term GBN as a more accurate description of the market message currently being conveyed by the term GDW. The FMR sets out that National Grid NTS are of the opinion that the term GDW was taken out of context by some market observers, fuelling a sense of panic that was unwarranted. We also note their view that the term GBN will provide greater clarity to GB market participants about the situation, enabling a more efficient response from Shippers. National Grid NTS consider that this would reduce the need for them to intervene, as residual balancer.

Further, we note that there was a mixed view amongst respondents on the impact of the modification on relevant objective (a). Some consider that the proposed change would result in a term which better reflects the situation, reducing the likelihood of confusion to end consumers. Others are concerned that a name change at this time may result in confusion amongst market participants.

We agree with Panel, and those respondents who consider the modification to have a positive impact on relevant objective (a). In our view, the term GBN better reflects the situation which the term GDW is attempting to describe (i.e. that there is a risk of an imbalance occurring before the end of the gas day). By clarifying the market message, it is our view that this should result in more efficient operation of the pipe-line system. We disagree that a change of name will result in confusion amongst market participants. In our view, market participants should have a greater understanding of the underlying significance of the notification.

⁷ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

⁸ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

⁹ 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.

Objective (e) so far as is consistent with sub-paragraphs (a) to (d), the 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

We note that National Grid NTS consider that UNC685 will result in improved price discovery, appropriately incentivising relevant suppliers to make adequate provision in their gas supply arrangements for peak days. We further note that respondents had a mixed view on the impact of UNC685 to the relevant objective (e).

We agree with those who consider there to be a neutral impact to this objective. In our view, there is no evidence to suggest that the term GBN would positively or negatively impact price discovery.

National Grid Gas Gas Transporter Licence Special Conditions

We note that the term GDW appears in the National Grid Gas Gas Transporter Licence, under Special Licence Condition 8I: 'Development and Implementation of a Demand Side Response methodology for use after a Gas Deficit Warning'. National Grid have provided reassurances that plans are in place to update all their relevant procedures ahead of 1 October 2019. Our decision to approve this modification will result in a minor inconsistency between a term used in the UNC and the licence. We intend to consult on modifying the National Grid Gas Gas Transporter licence to align these terms in due course.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC685: Amendment of the UNC term 'Gas Deficit Warning' to 'Gas Balancing Notification' be made.

Yours faithfully,

Chris Thackeray

Head of GB Wholesale Markets

Signed on behalf of the Authority and authorised for that purpose

ⁱ National Grid Gas Gas Transporter Licence Special Conditions available at:
<https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Gas%20Plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>