

**Modification Report**  
**Amendment to Demand Forecasting Timings in Relation to the Gas Balancing Alert**  
**Modification Reference Number 0101**

Version 2.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

## **1. The Modification Proposal**

Version 2.0 of the Proposal was as follows.

*"Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Report). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (\*) when first used. This Modification Proposal, as with all Modification Proposals, should be read in conjunction with the prevailing UNC.*

Modification 0061 – “Facilitating further demand-side response in the event that a Gas Balancing Alert (GBA)\* is triggered” was implemented on 15/12/05 and established the Gas Balancing Alert as a mechanism to signal to Users the likelihood of demand response being required in order to balance the system.

The trigger for issuing a GBA occurs when the Forecast Total System Demand\* is greater than or equal to the anticipated total system supplies. Within day, a GBA may be issued where there has been a supply loss of at least 25mcm per day that has resulted in the remaining anticipated total system supplies being less than or equal to the Forecast Total System Demand.

UNC Section V5.9.3 states that “*National Grid NTS shall issue (by means of publication on its website) an alert (a “Gas Balancing Alert”) where, after forecasting demand for a Gas Flow Day in accordance with Section H 5.2.3 on the Preceding Day, the Forecast Total System Demand for the Gas Flow Day in question is greater than or equal to the Forecast Total System Supply for such Gas Flow Day*”.

UNC Section H5.2.3 states that “*The Transporter will notify demand under paragraph 5.2.1 after receipt of weather data under paragraph 5.1.1 not later than the following times: 14:00 hours, and 02:00 hours on the Preceding Day and 12:00 hours, 15:00 hours, 18:00 hours and 21:30 hours on the Gas Flow Day*”.

UNC Section H5.2.4 states that “*The Transporter may in addition and at its discretion notify demand (for a relevant System) at other times for any reason it considers appropriate including, but not limited to, where it appears to the Transporter that the prevailing Forecast LDZ Demand may be substantially inaccurate; and where it does so it will inform Users of the reasons for its view*”.

At 00:30 on 13/03/06 a GBA was declared for Gas Flow Day 13/03/06. This alert was triggered by the results of the demand forecast that was undertaken by National Grid NTS to comply with the UNC H5.2.3 requirement to notify demand no later than 02:00 on the Preceding Day.

Subsequently some Users queried whether earlier publication would have improved market response. However, wording of the UNC limits the issuing of a day-ahead GBA to “..not later than the following times: 14:00 hours, and 02:00 hours..”

In practice however, National Grid NTS notifies demand for a Gas Day on the preceding day at approximately the following times: 13:00, 16:00, 00:00 and on the Gas Day at 10:00, 13:00, 16:00, 21:00 and 00:00 i.e three times at the day ahead stage and five times within the day. Thus the schedule of demand forecast provision is not an accurate reflection of the schedule stated in the UNC.

This proposal therefore sets out two changes to the UNC:

- 1) Amend Section H5.2.3 of the UNC to include all the additional publication times for which National Grid NTS produces demand forecasts.
- 2) Insert a reference to UNC Section H5.2.4 into UNC Section V5.9.3.

The prime objective of the Proposal is to allow National Grid NTS increased opportunities, at the day-ahead stage, to issue a GBA (following the necessary assessment of system conditions) following each demand notification. Currently the issuing of a GBA, at this stage, is restricted to two times during the day. This Proposal will allow (where appropriate) issuing of a GBA following each demand notification and/or any ad-hoc forecast that National Grid NTS notifies to Users. In addition this Proposal will also ensure that operational practices are consistent with the UNC. ”

## **2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

The Proposer's view was as follows.

"National Grid NTS believes that implementation of this Proposal would better facilitate the achievement of the Relevant Objectives specified in Standard Special Condition A11 as follows:

- a) The Proposal would improve “*the efficient and economic operation of the pipe-line system*” (A11.1a) by placing an obligation on National Grid NTS to notify Users of system demand more regularly and subsequently allowing National Grid NTS greater opportunity to issue a GBA (where appropriate) in response to significant changes in the forecasts.
- e) The Proposal would improve “*the provision of reasonable incentives for relevant suppliers to secure that the domestic customer supply standards are satisfied as respects the availability of gas to their domestic customers*” (A11.1e) by increasing the information available to industry parties thereby enabling a timely response to secure sufficient demand-side response in order to match supplies.
- f) The Proposal would improve “*the promotion of efficiency in the implementation and administration of the uniform network code*” (A11.1f) by ensuring consistency between operational practices and UNC obligations."

The following views were contributed in representations.

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

NG UKD, SGN, BGT, energywatch, EDF, TGP, AEP and GdF all argued this objective would be furthered.

NG UKD believed implementation would give NG NTS *“additional operational flexibility”* to provide a Gas Balancing Alert (GBA). NG UKD went on *“The earlier that a GBA could be issued, the more opportunity there is for shippers to take the necessary action, be that either obtaining additional supplies or taking demand-side reduction measures.”* In its qualified support BGT gave a similar argument.

Likewise SGN, referring to timely notification of a GBA, added *“This should increase the ability of Shippers bringing the supply / demand into balance and avoid NTS as residual balancer having to take action.”*

TGP argued implementation would *“increase the opportunity to notify the market of a Gas Balancing Alert. This in turn, we agree, may facilitate a more timely demand side response and the efficient and economic operation of the system.”* This was echoed by EDF.

c) efficient discharge of licensee obligations

EDF noted this objective may be facilitated *“by increasing the opportunity for NGG to issue a GBA, and so ensure any potential supply/demand imbalances are flagged to the market, allowing the market greater opportunity to balance and offer Demand Side Response (DSR) if required.”*

d) effective competition between shippers and suppliers

GdF suggested implementation may enhance competition in the Industrial and Commercial market because early GBA notification *“may increase the take up of commercial interruption contracts as short notification times can often act as a deterrent to demand side participation.”*

f) efficiency in the implementation and administration of the Uniform Network Code

BGT, energywatch, EDF and GdF all supported the Proposer’s view regarding this objective.

### **3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

The Proposer stated "Implementation of the Proposal would increase the opportunities for National Grid NTS to issue notification of a Gas Balancing Alert in circumstances where a GBA may help to avert a Network Gas Supply Emergency." AEP, RWE and GdF concurred, the latter suggesting that in principle a consequence of implementation might *“reduce the likelihood of a Gas Deficit Emergency being called.”*

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

**a) implications for operation of the System:**

As implementation would align UNC obligations to the prevailing practice of demand notification, the Proposer's view was that this aspect of the Proposal "will not affect the operation of the system." In its representation the Proposer clarified that *"The Proposal does not amend the GBA methodology and therefore does not increase or decrease the likelihood of a GBA being issued but will ensure that the industry can be informed of the GBA without unnecessary delay."*

In opposition to the Proposal, STUK was concerned that *"potentially increasing the likelihood of a GBA being issued could dilute the effectiveness of a GBA"*. STUK went on to outline a scenario where a GBA might be triggered early in the day and remained in place. *"Under the current arrangements, the GBA may not have been issued as the problem may have been resolved before such a time as was necessary to issue the alert."* EDF also referred to the potential adverse effects of a GBA remaining in place *"when it is clear that the market has reacted...and balanced its position"*.

In its qualified support BGT also referred to potentially undesirable effects of earlier triggering of a GBA that remained in force for the rest of the day. Another concern from BGT was *"the potentially disproportionate effects of a GBA on the market, and the relatively inflexible and opaque nature of the GBA. The trigger for a GBA is where Forecast Total System Demand exceeds anticipated total system supplies. Our concern is around the extent to which all industry participants have access to, and an understanding of, these key data which underpin a GBA. A lack of either access or understanding is likely to increase the potential for market volatility, a situation we see as highly undesirable."*

**b) development and capital cost and operating cost implications:**

There are potential reductions in the extent and cost of Residual Balancing Actions where a GBA was issued. However, STUK and BGT had concerns that implementation could lead to the opposite effect in terms of Residual Balancing Actions.

**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

Other than the consequences for Balancing Neutrality resulting from any change in the extent and cost of Residual Balancing Actions, it is not anticipated that this Proposal will result in any changes in cost recovery arrangements.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences are anticipated.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

Implementation would increase the UNC obligations on the Transporter for notification of demand from two to three times at the day ahead stage, and from four to five times within day, thus aligning UNC obligations to the prevailing practice.

Implementation would also provide an additional trigger for National Grid NTS to issue a Gas Balancing Alert.

**6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

No UK Link System implications are anticipated.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Implementation would provide UNC rights regarding the current practice of demand notification. Many respondents welcomed this (AEP, BGT, energywatch, EDF, GdF, SGN, TGP) and none were opposed.

The Proposer stated implementation would increase "the information available to industry parties thereby enabling a timely response to secure sufficient demand-side response in order to match supplies."

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

Implementation would relax present UNC restrictions on when National Grid NTS can make a Gas Balancing Alert available to industry parties.

energywatch suggested that market participants should receive "*as early notification as possible*" of a GBA, and other respondents echoed this sentiment (AEP, EDF, GdF, RWE, TGP).

EDF qualified its support "*unless an automated notification system..were implemented*".

In its qualified support BGT believed that *“the potential benefits of this modification – permitting earlier visibility of potential system stress, and ultimately earlier market response – outweigh the potential detriment of market over-reaction and price volatility. Part of this assessment is that, over the longer term, we believe that the market will “learn” that a GBA is not necessarily a reason for panic.”* BGT had concerns that once issued a GBA will remain in force for the remainder of the gas day whether or not the forecast system balance position has reverted to long. *“This potentially sets a dangerous headline, again risking market over-reaction”*. Potential interplay with information from UNC 0006 was another element.

STUK did not support implementation because of their concern that *“potentially increasing the likelihood of a GBA being issued could dilute the effectiveness of a GBA.”* STUK referring to satisfying the information needs of customers to trigger demand side response *“the customer may not fully rely on”* the issuing of a GBA.

#### **9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

Contracts containing reference to the Gas Balancing Alert may be impacted.

#### **10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

The following advantages have been identified.

- Implementation of the Proposal would improve the efficiency of the GBA process by allowing greater opportunities for National Grid NTS to respond to changes in demand forecasts and notify Users and consumers accordingly.
- Ensures National Grid NTS operational practices are consistent with the UNC.
- improve efficiency of licensee obligations
- help to avert a Network Gas Supply Emergency and enhance security of supply
- permit earlier visibility of potential system stress
- reduce costs of system operation
- facilitate increased take up of commercial interruption contracts and enhance competition

The following disadvantages have been identified

- increase the potential for market volatility
- potentially trigger over-reaction of the market leading to the System going long
- potentially blunt market response if GBAs were significantly more frequent
- does not provide contractual certainty of an automated notification system (rather than web site monitoring)

#### **11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

11 representations were received, 6 of which expressed support, 4 qualified support and 1 was not in support.

<b>Organisation</b>	<b>Abbreviation</b>	<b>Position</b>
Association of Electricity Producers	AEP	Qualified Support
British Gas Trading	BGT	Qualified Support
energywatch	Energywatch	Support
EDF Energy	EDF	Qualified Support
Gaz de France ESS	GdF	Qualified Support
National Grid Distribution	NG UKD	Support
National Grid NTS	NG NTS	Support
RWE npower	RWE	Support
Scotia Gas Networks	SGN	Support
Statoil UK	STUK	Not in Support
Total Gas and Power	TGP	Support

Three issues evident in the Qualified Support / Not in Support were as follows.

#### SMS/e-mail Notification Service

AEP sought a stronger undertaking to introduce an SMS notification service. BGT welcomed such a service, and EDF sought such a service to be in place and operational prior to implementation of the Proposal. GdF felt such a service was essential to support implementation. RWE referred to the assistance such a service might provide.

*In its representation the Proposer stated “Consumers have previously expressed a concern that continuous monitoring of National Grid’s web page in order to become aware of a GBA was impractical and that therefore fixed timings of the release of GBAs was required. We can confirm that we are currently developing a service for this winter that will allow GBAs to be notified to any interested party via either email and or SMS text message. This service is designed to go some way towards alleviating the above concerns. Further details of this service will be released by the end of September.”*

#### Likelihood of GBAs

The Proposer argued the Proposal does not increase or decrease the likelihood of a GBA being issued. STUK was concerned about a potential increase in the likelihood of GBAs being issued, and BGT believed that any significant increase could “blunt market response”.

#### GBA remaining in place for the remainder of the Gas Day

BGT was concerned that once issued a GBA will remain in force for the remainder of the day, risking market over-reaction. STUK noted that under present arrangements a “problem may have been resolved before such time as was necessary to issue the [GBA] alert.” EDF advocated development of a mechanism for removing a GBA after it has been issued.

**12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

No such requirement has been identified.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

**14. Programme for works required as a consequence of implementing the Modification Proposal**

No programme of works would be required as a consequence of implementing this Modification Proposal.

National Grid NTS has indicated an intention to provide an SMS notification service for GBAs for this winter 06/07.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

The Proposer suggested implementation as soon as practically possible and in any event prior to Winter 2006. This was supported in several representations.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No such implications have been identified.

**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

At the Modification Panel meeting held on 21 September 2006, of the 8 Voting Members present, capable of casting 10 votes, 9 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

## **18. Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

## 19. Text

### UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

#### SECTION H – DEMAND ESTIMATION AND DEMAND FORECASTING

*Amend paragraph 5.2.3 to read as follows (changes tracked):*

- 5.2.3 The Transporter will notify demand under paragraph 5.2.1 after receipt of weather data under paragraph 5.1.1 not later than the following times: 14:00, 18:00 hours, and 02:00 hours on the Preceding Day and 12:00 hours, 15:00 hours, 18:00 hours, ~~and~~ 21:30 hours and 02:00 hours on the Gas Flow Day.

### UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

#### SECTION V – GENERAL

*Amend paragraph 5.9.3 to read as follows (changes tracked):*

- 5.9.3 National Grid NTS shall issue (by means of publication on its website) an alert (a “**Gas Balancing Alert**”) where, after forecasting demand for a Gas Flow Day in accordance with Section H 5.2.3 and Section H 5.2.4 on the Preceding Day, the Forecast Total System Demand for the Gas Flow Day in question is greater than or equal to the Forecast Total System Supply for such Gas Flow Day.

Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**

Signature:

Date :