

Modification Report
Publication of Near Real Time Data at GB Storage Sites
Modification Reference Number 0108

Version 2.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because this proposal is linked to a specific date related event, the implementation of UNC006. Ofgem also considered that there may be a significant commercial impact upon affected Users if this Proposal followed non-urgent procedures.

Procedures Followed:

The procedures agreed with Ofgem for this Proposal are:

Submit proposal to Ofgem for urgency	16/08/06
Ofgem grant urgent status	17/08/06
Proposal issued for consultation	17/08/06
1st UNC 006 Pre-implementation workshop	11/09/06
Closeout for representations	12/09/06
Final Modification Report to the panel	18/09/06
Modification panel recommendation	21/09/06
Ofgem decision expected week commencing	25/09/06
Implementation date (subject to Ofgem's decision)	03/10/06

1. The Modification Proposal

The Proposal was as follows:

"Introduction

UNC 006 "Publication of Near Real Time Data at UK sub-terminals" in its current form will facilitate discriminatory behaviour solely against Storage Operators. It will allow inefficient rents to be extracted from those operators thereby reducing the overall efficiency of the gas wholesale market and thus be detrimental to end customers.

This Proposal seeks to remedy these short comings by providing a single gas flow data point encompassing all Storage Facilities.

It is proposed that from the date of implementation of UNC 006 and for the purpose of publishing the volume (flow rate) of gas entering the National Grid Gas NTS' (NGG NTS) transportation network, all Storage Facilities including those Storage Facilities with a capability below 10 mcm/day, will aggregate their entry flows into a single entry point.

Background

UNC 006 was raised by energywatch in November 2004 and the Authority directed the implementation of the proposal in May 2006. UNC 006 will require NGG NTS to publish the volume of gas supplied to all entry points that are owned by NGG NTS and all entry

and sub-terminals which are capable of accepting gas flows at rates greater than 10mcm/day.

Mechanism of Discrimination against Storage Operators

The implementation of UNC 006 introduces the opportunity for discrimination against Storage Operators because only this class of User includes those that are obligated to disclose other information that uniquely reveals their market position within the balancing period.

There are two defining characteristics which separate out this type of User from the generality of entry point Users.

Firstly, Storage Operators (notably TPA sites) contracted positions are disclosed, in advance, to the market. Commercial and regulatory obligations require these operators to publish customers aggregated nominations within the gas flow day. For example as contained within the Guidelines for Good TPA Practice for Storage System Operators agreed in March 2005. Users of non Storage Operator sub terminals or entry points are not obliged to provide this information in advance.

Secondly, some Storage Operators are further exposed by obligations to allocate their customer nominations whole (meaning that any shortfall in the physical flows from facilities are made up solely by the Storage Operator in the market).

Given this backcloth, disclosure of near real time information will provide the market with complete visibility on how such Storage Facilities are performing against their contracted positions and consequently, at times of stress, will allow inefficient rents to be extracted from such Storage Operators.

The majority of other entry points have multiple users and therefore actual User performance will not be as directly observable. Accordingly, all other gas shippers will maintain a level of commercial anonymity above that of Storage Operators and as such will not be exposed at times of distress.

Purpose

The purpose of this modification proposal is to mitigate the disadvantage that Storage Operators will be subject to as described above and enable System Users to compete on a more level playing field whilst still making the information available in aggregate form.

Consequences of Non-Implementation

CSL believes that there are three consequences of non implementation.

At times of stress, inefficient rents will be extracted from Storage Operators (and other market participants who happen to be holding short positions) and ultimately customers will be exposed to higher charges.

The current market signals which are encouraging the development of storage facilities will be impacted, potentially driving investment elsewhere.

Flows from smaller Storage Facilities will not be made available to the market.

Supporting Evidence

A similar issue has arisen in the context of short selling of shares. The Financial Services Authority (FSA) found that short selling is a legitimate investment activity but that increased transparency would be helpful so long as its benefits would outweigh any disadvantages. (Note 1. See FSA – Short Selling – Feedback on DP 17 (<http://www.fsa.gov.uk/pubs/discussion/fs17.pdf>), paragraph 1.2.) The FSA carefully considered whether to impose frequent disclosure obligations and concluded that a regime involving frequent disclosures could increase the risk of upward price manipulation because of the risk of squeezes to which short sellers could be exposed. (Note 2 See FSA – Short Selling – Feedback on DP 17 (see Note 1 above), paragraph 3.27). The same analysis applies here. Short selling of shares results in a situation in which the seller has an obligation to purchase shares in the market to cover its position (if that position is not already covered). The FSA's concern was that if the market were aware that a short seller was obliged to come into the market at a particular time, then it would lead to the risk of price squeezes. In the current situation, the effect of UNC 006 will be to notify intelligent suppliers of gas when they have an opportunity to apply a price squeeze. CSL submits that the approach adopted by the FSA is equally relevant to the situation with Storage Operators and applying a disclosure obligation to a single class of user when doing so would be likely to lead to price squeezes is contrary to the public interest and an orderly market for gas.

Summary

To avoid discriminatory behaviour and inefficient rents being extracted, this modification proposes that for information purposes all gas entering the NTS from Storage Facilities, including those below the existing arbitrary threshold, be combined for reporting purposes into one storage input flow number thereby securing the effective competition between relevant shippers by removing this discriminatory information obligation which unduly exposes the commercial exposure of certain types of system users."

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

BP considered that implementation would better facilitate "*Relevant Objective (a) of the Gas Transporters Licence. Without this modification proposal, the status quo, effective from 3rd October 2006, could lead to higher gas prices that do not accurately reflect the prevailing supply and demand situation; therefore, implementation of this proposal would better support the economic and efficient operation of the pipeline system in relation to gas storage.*"

CSL maintained that "*all information currently published by storage operators is beneficial to the wider market promoting the economic and efficient operation of the system and market positions. This modification seeks to align real-time data flows within the existing information provisions on a class of system user without uniquely exposing their commercial position.*"

NGG UKD stated "*competition is best served by market participants being placed under equivalent levels of scrutiny, and for this reason, Distribution supports the implementation of Modification Proposal 0108*"

energywatch expressed the opposite view on this relevant objective. Whilst it understood *“that there may be some commercial exposure of particular storage operators through the obligation to publish data on flows of gas at all entry points under UNC006, we believe that the benefits of greater market transparency outweigh any possible adverse impacts. Overall, there ought to be more efficient operation of the system as a result and parties should be able to make the necessary commercial adjustments close to real time to cover their positions.”*

The Proposer of Modification Proposal 0108 suggested that implementation would better facilitate relevant objective (d) *“the securing of effective competition between relevant shippers and between relevant suppliers,”* for the following reasons

“Failure to implement this proposal would undermine and skew the wholesale trading markets leading to potentially inefficient gas prices through excessive volatility and/or distorted investment signals. By providing combined gas entry flow information for all Storage Operators the market will be supplied information which will further the objective of creating a fully competitive GB gas market at numerous levels of the gas chain i.e. gas shipping, trading and supply.”

BGT supported implementation, *“seeing it as a mechanism to provide similar treatment to storage sites to Entry Points. As such, we believe its implementation should coincide with, the implementation of modification 006. In supporting this modification, BGT believes that the achievement of the relevant objectives set out at section A11 will be better facilitated by its implementation. In particular, we believe that without this modification, uneconomic and inefficient pricing will be brought forward to the market where it is known that a distressed purchaser exists, or is likely to exist. This modification will dampen any potential for unwarranted price volatility, and allow short positions to be remedied at the prevailing, i.e. efficient and economic, market rate.”*

BP also referred to this relevant objective in considering that implementation *“would remove likely distortions in relation to storage which will in our view result from modification proposal 006, by preventing the distortion of competition between relevant shippers and suppliers.”*

CSL reiterated its view as Proposer that implementation of Proposal 0006 in its current form would be *“prejudicial against certain storage operators as it uniquely reveals their market position within the balancing period, thereby distorting competition between relevant shippers. Further, CSL believes the creation of unique exposure levels to a particular class of system user not only distorts the level playing field but that this exposure would also lead to a reduction in the efficiency of the wholesale gas market.”* CSL concluded that this Proposal sought to *“allay these issues to further the relevant objectives by aggregating all storage operators ‘real-time’ flows whilst enhancing the information available to the wider market.”*

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

Security of supply would be expected to be enhanced if implementation removed the current scope for inefficient gas prices and distorted investment signals.

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

a) implications for operation of the System:

NGG NTS would be required to provide a single aggregated storage flow on its website. It is assumed that all storage flows would be sent separately for NTS to aggregate and publish so there would be operational and systems consequences.

If implementation led to lower levels of price volatility, this would provide operational benefits to residual balancing conducted by the System Operator.

b) development and capital cost and operating cost implications:

Other than any system costs, no development and capital costs are associated with implementation. The main operating costs affected would be those associated with residual balancing. Any benefits associated with reductions in price volatility would be expected to be reflected in lower residual balancing costs.

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

Any difference in residual balancing costs would automatically be reflected in Energy Balancing Neutrality.

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

No such consequences have been identified.

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

No such consequence had been identified.

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

Changes would be required to National Grid's web pages in order to reflect the aggregate nature of the flow. Associated changes would be expected for User systems. It is not known what the associated costs of this would be.

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

The Proposer suggested that in the absence of implementation there is a current risk to Users of "inefficient gas prices through excessive volatility and/or distorted investment signals". Implementation, therefore, might be expected to reduce this risk.

NGG UKD agreed with the Proposer stating *“We believe that the issue raised by the Proposer does present commercial risks for the operators of the storage facilities.”* By publishing information at connection level it may be possible to deduce individual shipper behaviour that would be unavailable at other delivery facilities due to the composite nature of the information published about beach supplies.”

energywatch considered that there was a risk *“that aggregating data to a single entry point will allow some of the discriminatory behaviour which UNC108 seeks to remove to manifest itself through the protection of some storage operators from not disclosing data at single entry points. This would have the reverse effect of keeping valid commercial data from the market, creating inefficiency and higher costs. This would be contrary to the benefits which we envisage will flow from UNC006.”*

EDFE, in opposing implementation referred to its long support of the release *“of near to real time data to overcome the asymmetrical access to market information and ensure that sufficient information is available to the market to ensure that price is developed based on supply and demand fundamentals and not market rumour. We therefore welcome the increased transparency that this data will provide, and would encourage Ofgem to ensure that the sound fundamentals on which the modification was approved on are maintained. We believe that Rough is, and will continue to, represent a unique and significant source of gas to the UK market, and so real time flows for this facility should continue to be published.”*

JHA did not *“accept that release of information to non market participants could by definition lead to volatility if that is indeed the true motive behind the proposal. Industrial and commercial buyers do not have shipper licences and do not trade gas. It therefore follows that no non market participant can take advantage of any distressed buyer.”* JHA also pointed out that *“the UK market has experienced a high degree of volatility well before the introduction of 006. It would be difficult to imagine a more turbulent time in the price history of the market.”*

RWE referred to the future implementation of Proposal 0006 and stated that it was *“not clear that storage sites have a stronger case than that of other beach shippers/producers at certain sub-terminals to justify an exemption from publishing disaggregated flow data. Furthermore, this additional data would be useful for transparency and the absolute amount of gas in store will be relevant to market participants' view on price, and should be disclosed.”*

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

The Proposer suggested that implementation of Proposal 006 “Publication of Near Real Time Data at UK sub-terminals” would “facilitate discriminatory behaviour solely against Storage Operators.” and “allow inefficient rents to be extracted from those operators thereby reducing the overall efficiency of the gas wholesale market and thus be detrimental to end customers.” It, however, suggested that this Proposal “seeks to remedy these short comings by providing a single gas flow data point encompassing all Storage Facilities.”

The Proposer justified this statement by outlining two defining characteristics which separate out Storage Operators "from the generality of entry point User". These characteristics were, firstly, the requirement for Storage Operators (notably TPA sites) to disclose contracted positions in advance, to the market and, secondly, that some Storage Operators were further exposed by obligations to allocate their customer nominations whole.

BG supported implementation *"on the grounds that publication of information should not disadvantage individual market participants. In BG's response to Ofgem's Impact Assessment of Modification Proposal 006, dated 24th June 2005, we specifically raised the issue of distressed buyers; similar to the Proposal's concerns that, "at times of stress, inefficient rents will be extracted from Storage Operators".*

BP pointed out that *"once Modification Proposal 006 is implemented on 3rd October 2006, storage operators will be amongst those parties that will be exposed commercially and potentially placed in a 'distressed shipper' situation because other market participants would know when a storage operator is in the market and could therefore charge a much higher premium for the gas the storage operator purchases at the NBP."* BP was also *"of the view that publication of this information is likely to be commercially sensitive to individual companies and would, for example, expose storage operators unnecessarily to substantial risk in the event of an outage at their storage sites."*

NGG UKD supported the Proposer, *"a composite storage delivery figure would be a closer analogy to a sub-terminal and, consequently, the request to publish aggregate deliveries would appear to be a valid way forward."* NGG UKD also suggesting *"storage users' delivery characteristics could be under disproportionate scrutiny compared with deliveries by users at non-storage entry points."*

CSL responded to suggestions that as a *"change in shipper nomination is not currently published on a near real time frequency.... at any storage facility that demonstrates a reduction in production, a certain level of uncertainty would exist within the trading community thus offering protection to the effected party."* In contesting this, CSL suggested that *"if the marginal price of gas is at a level which gas storage production would be expected then it appears reasonable to assume that any turn down in flow would be as a response to distress and not a change in nomination thus exposing that party as a distressed buyer and providing the opportunity for inefficient rents to be extracted."*

EDFE believed that *"some protection will be provided to CSL through normal market mechanisms as participants are anonymous on the OCM market, and CSL only publishes its nominations at D-1 16.00 and within day at 12.00, 15.00 and 18.00. Therefore if real time data showed a sudden drop in production it would not be immediately clear whether there was a telemetry error, whether it was the effect of a renomination or whether there was a problem with the Rough storage facility. We believe that this could provide CSL with up to 6 hours protection to go to the market as an anonymous participant and secure their gas requirements before the market became aware of their position. We would further note that CSL would benefit from the time delay between a problem occurring on the storage facility and it registering as a reduced flow on the meters, although we are aware that this delay is not as significant as some offshore fields will experience. We also believe that if it were a significant problem (such as the fire that occurred on 16 February 2006) CSL*

would be protected on subsequent days through the declaration of force majeure. It should further be noted that historically when there has been an incidence on Rough, CSL have actively informed the market and the shippers who have purchased storage within its facility of the incident, and yet has managed to procure the gas to fulfill its obligations to fulfill its nominations whole for that day.”

In not supporting implementation, energywatch believed that retaining the full requirements of Modification Proposal 0006 i.e. separate flow information from all substantial Entry Points, including Storage connections *“should result in lower costs and benefits to end consumers, which is the main purpose of UNC006.”*

ExxonMobil expressed the view *“that commercial information should be provided to the market in an aggregated form that does not allow disaggregation to expose individual parties to commercial risk.”* It pointed out that it had *“consistently supported transparency and the provision of information to the market, where the information is provided; on a timely basis, consistent with the balancing period; non-discriminatory, where no individual company commercial position is exposed to the market; and; promotes an efficient and effective competitive market.”* It, however, stated that *“to the extent that sensitive information is shared, the effect that it may have means it needs to be carefully considered,”* and in this context made reference to the OFT’s Guidance Note 401 of March 1999.

NGG NTS sympathised with CSL’s view *“that the implementation of UNC 006 “Publication of Near Real Time Data at UK sub-terminals” could lead to the opportunity for discrimination against Storage Operators. We appreciate that this class of User is obligated to disclose other information that uniquely reveals their market position within the balancing period. We note however that, issues and concerns very similar to those raised by CSL in their Proposal were discussed extensively during the various consultations associated with the UNC 006 modification process and we consider that nothing has materially changed since Ofgem’s decision to implement UNC 006.”*

In support of implementation SGD *“noted the fact that all storage facilities, and not just those required to offer TPA, would consequently be treated differently to other NTS entry points”* following the implementation of Proposal 0006. It suggested that raising of this proposal merely indicated *“that concerns regarding commercial confidentiality and exposure following Ofgem’s decision to approve UNC Modification Proposal 006 (‘006’) remain valid. In this instance, these concerns are in relation to the specific situation of some storage operators but they retain a more general application.”* SGD also referred to the *“issue of the exposure faced by TPA storage facility operators who choose to keep customer nominations ‘whole’ by buying/selling gas at the NBP.”*

STUK stated that it was *“wholly inappropriate for the market to gain complete visibility of how Storage Facilities are performing against their contracted positions, through the disclosure of real time information. It is our understanding that the 10mcm/d de minimis, included within UNC006, was suggested to prevent disclosing the commercial position of a market participant. It therefore follows that other such provisions, as suggested in Modification 108, providing a single gas flow data point, encompassing all Storage Facilities, should be incorporated into the Code, to prevent undue discrimination against*

any type of market participant, with respect to the disclosure of commercially sensitive information.”

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

No such consequences have been identified.

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

Advantages of the proposal:

- Could remove potential impact following implementation of Proposal 006, where identification of market participants in distress may increase price volatility
- Retains current market signals (As per pre-006 regime) encouraging development of Storage Facilities
- Extraction of efficient rents for Storage Operators and other Market Participants who are holding short positions at times of stress

Disadvantages of the proposal:

- Implementation of this changes required by this Proposal within required timescales would require short-notice IS system changes and increases associated risks for technical implementation of the Gas Market Reporting System (Modification Proposal 006)
- Removes some transparency of information by Modification Proposal 006

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

Representations were received from the following:

BG Gas Services Limited	BG	Support
British Gas Trading	BGT	Support
BP Gas Ltd	BP	Support
Centrica Storage Ltd	CSL	Support
EDF Energy plc	EDFE	Not in Support
Energywatch	energywatch	Not in Support
ExxonMobil Gas Marketing Europe Limited	ExxonMobil	Support
John Hall Associates	JHS	Not in Support
National Grid Gas NTS	NGG NTS	Neutral
RWE npower plc	RWE	Not in Support

Shell Gas Direct Limited	SGD	Support
Statoil (U.K.) Limited	STUK	Support
National Grid Gas Distribution	NGG UKD	Support

Thus, eight respondents supported implementation, four respondents did not support implementation and one was neutral.

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

No such requirement was 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

No such requirement was identified.

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

NG NTS identified that configuration changes would have to be made to the website. These could be accommodated in the implementation of Proposal 0006 if at least seven days notice were given.

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

The Proposer has suggested an implementation date of 3 October 2006.

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

No such implications were 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, 6 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 agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

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: