

Modification proposal:	Uniform Network Code (UNC) 219: Publication of UK Wholesale Gas Market Liquidity Data (UNC219)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	05 March 2009	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Currently information on gas market liquidity³, such as data on traded volumes, may be obtained through commercial information providers such as Heren or Platts, or purchased directly from OTC brokerages and exchanges. Another source of information on market liquidity is the annual survey on GB wholesale gas and electricity traded volumes published by the Financial Services Authority (FSA)⁴.

Data on traded volume in the GB gas market is also published by National Grid Gas NTS (NG). The information on gas traded volume that NG currently receives is provided on a voluntary basis by shippers either on, or ahead of, the gas day. NG also records the level of physical gas flows into the NTS (total daily input nominations). This information is presently available to download from NG's website⁵. It is possible to use this information as a guide to estimate current levels of liquidity in the GB gas market.

However, concern has been expressed that the information currently available on the level of wholesale liquidity in the GB gas market is not easily accessible, and that data which is available is not comprehensive or easy to interpret.

The modification proposal

Modification Proposal UNC219 ('the Proposal') seeks to amend UNC TPD Section V, Annex V-1 ("Operational and Market Data"), such that NG is required to publish the following aggregated data (for each Gas Day):

- i. The daily volume (in TWh) of all total matched trades in respect of that Day (before the Day & within Day);
- ii. The volume (in TWh) of all total daily input nominations in respect of that Day;
- iii. The total number of matched trades to which the volume of all 'total matched trades' applies;
- iv. The total number of Users who have registered a Trade Nomination for the relevant Gas Day.

Items i – iii above are currently available from NG's website. Item iv is presently not available and will be provided in addition. All of the above data will be published together on NG's website on D+2, by 13:00 hours. Whilst items i – iii are presently available via NG's website, respondents to the consultation on the Proposal suggested that the increased focus on market liquidity in recent months has created a need for this

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

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

³ Liquidity is important as it can enable market participants to make long-term hedging and investment decisions on the basis of the traded wholesale price and allows non-vertically integrated entrants to participate in the wholesale markets alongside vertically integrated firms.

⁴ <http://www.fsa.gov.uk/>

⁵ NORD06 Gas Trading Report at http://www.nationalgrid.com/uk/Gas/Data/help/mipi_add_doc/IE3DirectLinks

information to be more prominent and for an additional measure of liquidity (in this case number of active users – item iv) to be displayed.

The proposer also provided a suggested format for the presentation of the above data, and suggested that two years' retrospective data is provided alongside the daily updated data. However, these suggestions do not form part of the Proposal.

UNC Panel⁶ recommendation

At the Modification Panel meeting held on 18 December 2008, the Panel recorded a majority verdict in favour of implementing the Proposal.

The Authority's decision

The Authority has considered the issues raised by the Proposal and the Final Modification Report (FMR) dated 24 February 2009. The Authority has considered and taken into account the responses to the Joint Office's consultation on the Proposal which are attached to the FMR⁷. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁸; and
2. directing that the modification to be made is consistent with the Authority's principal objective and statutory duties⁹.

Reasons for the Authority's decision

Ofgem agrees with the findings of the Panel that the Proposal will better facilitate the Relevant Objectives of the UNC. We consider the aims of the Relevant Objectives below. Please note that unless we have directly stated otherwise we consider the Proposal to be neutral to the aims of the Relevant Objectives.

Of the 11 responses to the consultation, 8 respondents offered support whilst 2 did not support the Proposal. The remaining respondent offered comments on the Proposal.

Relevant objectives

d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant shippers, suppliers and DNS

Ofgem considers that provision of the additional information and the revised presentation is a proportionate response to the requirement for liquidity data to be more easily available. We consider that implementation will promote competition by providing new information to the market, and by enhancing the ease with which presently available data is accessed.

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

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

⁸ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

⁹The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

Whilst three of the items requested by the Proposal are provided at present, the current means of accessing data from NG's website is complex and would benefit from revision. Implementation may help those parties with limited ability to access currently available information and potential new entrants to assess the level of liquidity in the market and hence take a more informed view of the risks and rewards of entering the market. This may encourage new entry and also greater participation by existing market participants resulting in increased competition between market participants.

Information provision

NG publishes a wide range of information on the gas market through its website. During 2008, following consultation with industry participants, NG revised the way in which it made data available to interested parties to better reflect data requirements of users. Utilising its data publication system MIPI (Market Information Publication Initiative), the revised system adopted a 'data warehouse' approach, allowing users to select download and manipulate data as required. This contrasted with the previous system where a series of predefined reports formats were provided. NG also provides a number of standard reports via its Daily Summary Report (DSR).

One respondent expressed concern that presenting the data items in the format suggested under the Proposal, or any other manipulated format, represented a departure from the MIPI system which has been developed following engagement with the industry. However, this respondent did accept that a small number of reports could be generated where the information is difficult to understand or where detailed analysis would be necessary to provide a defined benefit to the industry. This respondent also expressed concern that implementation of the Proposal may lead to other data being requested in a variety of presentational formats.

Ofgem considers that there are a number of circumstances where it would be acceptable to generate specific reports (for instance where the information requires detailed analysis to be of use). Ofgem also notes that any future proposal to make data available through standard reports or through the MIPI system should be judged on its own merits.

Ofgem also notes that a number of market participants have indicated that they value the ability to view data in a graphical or tabular format for example and find it difficult to access, manipulate and analyse data which is presented in a 'data dictionary' format. On balance, Ofgem believes that presenting the data requested by the Proposal in a co-ordinated and more prominent manner would make information on liquidity more accessible, particularly to smaller players who are less active in the market, and would therefore encourage competition between industry participants.

Limitations of gas trades data

Two respondents highlighted a range of concerns regarding the usefulness of the data that the Proposal is seeking to publish. These concerns are that:

- Information is supplied to NG by shippers on a voluntary basis and therefore does not necessarily represent all trades. In addition, NG does not receive any associated information, such as which platform or at which price the contract was struck.
- Whilst shippers may have undertaken a number of trades with different parties, they may only have declared the net position of these trades. Total traded volume may be underestimated as a result.

- The method of cataloguing active shippers (using signature codes) may not accurately reflect the true number of active shippers, as a number of shippers belonging to a single parent entity may trade with each other using different shipper codes. Total traded volume may be overestimated as a result.

One respondent noted that these issues may create a risk that information made available under the Proposal may be misinterpreted by users.

Ofgem appreciates the limitations of using gas trades data provided to NG on a voluntary basis by shippers only as a measure of liquidity. However, Ofgem believes that these concerns can be largely ameliorated by ensuring that suitable caveats and explanations are published alongside the data. This approach would seem to provide an efficient solution to resolve the concerns highlighted above. Ofgem considers that directly resolving each specific concern would currently seem to be very challenging, time consuming and costly.

Other issues

A number of respondents noted that information on liquidity was already available from a number of sources such as Heren and the FSA, with one respondent questioning whether the Proposal would provide any meaningful information over and above that which is already available to the market.

Ofgem notes that as trading occurs across a range of different platforms, it is unlikely that any single data providers will offer a comprehensive picture of the total level of liquidity in the GB energy market. It is also necessary to purchase data at commercial rates from these providers, which may act as a barrier for smaller market participants. In addition, there has been considerable and growing interest in energy market liquidity from diverse quarters including Government (the Business and Enterprise Select Committee), consumer groups and the wider press. Easier access to liquidity information is likely to be of benefit to these groups and others acting on a non-commercial basis.

Ofgem notes that the FMR includes a suggested format for presenting the data covered by the Proposal. Ofgem would expect NG to agree an acceptable format for presentation prior to implementation.

One respondent, whilst offering support for the provision of an additional fourth data item, did not support the method of delivery of this additional data item, i.e. via Section V of the UNC. This respondent argued that this item should be introduced via changes to the Network Code Operations Reporting Manual (NCORM)¹⁰, following industry discussion.

We note there has been some debate as to the appropriate means of progressing changes of this nature, which may be partly due to the way the provisions relating to this information have evolved.

Section V annex 1 of the UNC, which this proposal specifically seeks to amend, was first introduced into the Network Code following the implementation of Modification 601: 'Disclosure of information relating to the operation of, or any market relating to, the pipeline system'¹¹. The modification introduced a new defined term of 'operational and market data' into Section V, which itself refers to a table set out as an annex to that

¹⁰ NCORM provides a listing of data items NG is obliged to publish through its MIPI system.

¹¹ Decision on Mod Proposal 601: 'Disclosure of information relating to the operation of, or any market relating to, the pipeline system' at <http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Archive/4060-601.pdf>

section. It was intended that subsequent proposals (put forward by either signatories or Third Party Participants) would then populate the table with data items, specifying both the nature of the data and its presentation.

However, UNC053: 'Extending established UNC governance arrangements to include the *Network Code Operations Reporting Manual* referenced in Section V9.4'¹², as the title implies, made the NCORM subject to UNC governance. Whereas changes to the NCORM have previously been at the sole discretion of NG, UNC053 provided for Users to request changes and for them to be agreed with the majority consent of the UNC Committee.

We understand that the proposer preferred to raise a modification as they felt that changes to the timing of publication of data could not be facilitated via the NCORM route. There is also some uncertainty as to whether the NCORM route would be appropriate, as the proposal sought to prescribe the format in which the data would be presented, in addition to defining the data itself. Ofgem generally supports the view that where possible, changes to data items under the current MIPI platform should be introduced via the NCORM route, subject to approval of the UNCC. However, in the event that the UNCC could not agree such a change, it could in any case have been escalated to a modification proposal. We therefore do not consider that any of the concerns about the way in which the Proposal has been progressed would warrant its rejection. However, we do acknowledge further clarity may be needed and will request that the UNC Governance Workstream review this area of drafting.

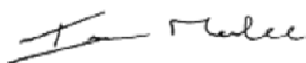
Implementation

Ofgem considers that incorporating the changes into the existing MIPI Phase 2 development project (Option 2 under the Proposal) represents the most appropriate implementation option. This option is estimated to be around £45,000 cheaper than Option 1. The major difference between the options is that Option 2 would result in a three month delay in implementation over Option 1. Given the relatively short period Ofgem believes the cost savings outweigh any impact of the delay.

We welcome the fact that these alternative implementation strategies have been explored as part of the development of this Proposal. We encourage the consideration of these issues for any modification where there is a balance between expediency and cost. Whilst in this case we consider the cost savings outweigh any impact of the delay, we note that the greatest overall value may not always lie with the least cost option.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 219: "Publication of UK Wholesale Gas Market Liquidity Data" be made.



Ian Marlee
Director, Trading Arrangements

Signed on behalf of the Authority and authorised for that purpose.

¹² Decision on UNC Modification Proposal UNC053 at http://epr.ofgem.gov.uk/document_fetch.php?documentid=9687