

Modification proposal:	<b>Uniform Network Code (UNC) 415: Revision of the Gas Balancing Alert Arrangements (UNC415)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	24 October 2012	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

The Gas Balancing Alert (GBA) arrangements were introduced as part of UNC61: 'Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered', implemented in December 2005. The intent of a GBA is to inform system users of a near-term requirement to redress a forecast system imbalance. They are intended as a pre-emergency preventative measure aimed at encouraging a market response to potential system tightness.

Under current arrangements, there are two types of GBA defined in the UNC; a day-ahead GBA and a within-day GBA. A day-ahead GBA is triggered where the day-ahead forecast demand exceeds the GBA trigger level. The day-ahead GBA trigger level represents the view of total forecast system supply taken by National Grid Gas National Transmission System (NGG NTS) in their role as system operator (SO). A within-day GBA can be triggered if there is a supply loss during a gas day of greater than 25 million cubic meters (mcm), and if NGG NTS has a reasonable expectation of an end-of-day imbalance. Once a GBA (of either type) has been issued under the prevailing arrangements, it remains in place until the end of the gas day.

Feedback received by NGG NTS following GBAs issued during winter 2010/11 indicated that the arrangements may not be as effective as intended, and so a review was initiated to discuss potential enhancements to the arrangements. This modification represents the outcome of that review.

The GBA arrangements have interactions with the EU Gas Security of Supply Regulation<sup>3</sup>. Article 10 of this regulation sets out the requirement to have three stages of 'crisis': "early warning", "alert" and "emergency".

## The modification proposal

The modification proposes to make changes to the prevailing GBA arrangements in four areas. The first would replace the single term 'GBA' with two terms, in order to reflect the differing severity and time criticality of the day-ahead and within-day GBAs. For the day-ahead signal, NGG NTS would issue a "Margins Notice" (MN) if the expected available supply level was less than or equal to day-ahead forecast demand. For the within-day signal, NGG NTS may issue a "Gas Deficit Warning" (GDW).

Under the prevailing arrangements, once a GBA is issued it remains in place until the end of the gas day. Recent experience indicates that this has led to the system closing 'heavy', indicating that the response of market participants may have been greater than

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

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

<sup>3</sup> Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC

necessary to resolve the issue. The modification would introduce the ability to issue a withdrawal notice for a GDW, where an end-of-day imbalance deficit is no longer expected.

The modification would also clarify and revise the trigger methodologies for an MN and GDW contained within the UNC. In the case of an MN, the modification would introduce a defined term 'Expected Available Supply', which would represent NGG NTS's view of typical winter supply on a high demand day. This would replace the current term 'Forecast Total System Supply'. The proposer believes this would be a more accurate determination of supplies which would provide a better view of expected system conditions.

In the case of a GDW, the modification would update the within-day trigger methodology to include the impact of demand-side as well as supply-side shocks. The modification would also remove the requirement for a greater than 25 mcm loss to trigger consideration of issuing a within-day alert. This means NGG NTS could issue a GDW in response to a supply loss of less than 25 mcm or a demand-side event, if it considers that this event leads to a reasonable expectation of an end-of day imbalance.

Finally, the modification would introduce the ability for NGG NTS to initiate a GDW before the start of the relevant gas day should information that would trigger a within-day alert become available before the start of a gas day.

Although not part of the modification, NGG NTS has provided an explanation of its intention to provide additional information to industry in relation to MNs and GDWs. This would include a breakdown of NGG NTS's assumptions on availability of supplies from various sources, and additional information on the rationale for issuing a GDW should one be issued.

#### **UNC Panel<sup>4</sup> recommendation**

At the UNC panel meeting held on 20 September 2012, 10 votes were cast in favour of implementing UNC415, with none against and no abstentions. Therefore the panel unanimously recommended the implementation of UNC415.

#### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 September 2012. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR<sup>5</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>6</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>7</sup>.

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<sup>4</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>5</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>6</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

<sup>7</sup> 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.

## **Reasons for the Authority's decision**

The Joint Office received four representations on the proposal. All four respondents were in favour of implementing the proposal. We note that the proposer, respondents and the UNC panel considered the impacts of UNC415 on relevant objectives (a), (b) and (g). We agree that relevant objectives (a) and (b) are appropriate objectives to assess the modification against, though we consider the impact on relevant objective (g) to be neutral. We consider that the impact on the other relevant objectives is also neutral.

*Objective (a) – Efficient and economic operation of the pipe-line system;*

Panel members and respondents considered that changes to the GBA arrangements would improve the information available to the market at times of potential system distress. This should lead to parties taking informed actions in light of the potential system imbalance. This may reduce the need for NGG NTS to intervene and so better facilitate economic and efficient operation of the system.

We consider that the modifications to the names and definitions of the within-day and day-ahead alert arrangements will provide greater clarity on the hierarchy of the two types of alert, and so the severity of the potential system imbalance. The changes also clarify the methodologies used to determine whether an alert is issued. This improves the information available to market participants on the status of the system and so enables them to take better-informed actions. This may mean that issues are resolved with less SO intervention and so better facilitate the economic and efficient operation of the system.

In addition, the modification provides NGG NTS with greater flexibility on whether a GDW would be issued. Firstly, through the removal of the requirement for a 25 mcm supply loss to occur before NGG NTS can consider issuing a within-day alert. Secondly, through the introduction of the ability to issue a GDW ahead of the day should information become available. This greater flexibility means that a GDW can be issued in response to any event which NGG NTS considers leads to reasonable expectation of an end-of-day imbalance. This also improves the quality of information available to the market, facilitating a better informed market response and potentially reducing the requirement for SO intervention.

Providing for the potential withdrawal of a GDW also gives greater flexibility and allows NGG NTS to react if the market response is sufficient to resolve the issue within the day. This should better facilitate the achievement of relevant objective (a) by reducing the likelihood that NGG NTS will have to intervene due to an 'over-response' by market participants.

*Objective (b) – Coordinated, efficient and economic operation of the combined pipeline system and/or the pipeline system of one or more other relevant gas transporters*

The proposer considered relevant objective (b) alongside relevant objective (a) in evaluating the modification. They considered that the modification will better facilitate relevant objective (b) for the same reasons as relevant objective (a).

We consider that the modification will better facilitate relevant objective (b), for similar reasons as discussed above in relation to relevant objective (a). The improved information should enhance the co-ordinated operation of the pipeline systems. This is

because improved information will aid other relevant transporters in their decision making, as they will be able to act based on clearer signals.

In addition, the impact of improved information on the actions of market participants should improve the co-ordinated operation of the system in times of system stress. This is because market participants will be able to take better informed actions and so may reduce the need for co-ordinated intervention by affected transporters. Should co-ordinated intervention be necessary, then more informed actions taken by market participants should improve the efficiency of any co-ordinated actions taken by transporters as market participants will be making better informed decisions and so better contribute to the resolution of an issue.

*Objective (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.*

The Gas Security of Supply Regulation requires that emergency plans contain three 'crisis' levels: 'early warning', 'alert' and 'emergency'. The proposer, panel members and respondents consider that separating the existing GBA into two (MN and GDW) provides for the first two of these three levels (the third being the existing emergency arrangements) and so better facilitates the achievement of relevant objective (g).

We agree that the modification is consistent with article 10 of the EU Gas Security of Supply Regulation and we have taken this into account in reaching our decision to approve this modification. For the avoidance of doubt, however, we consider that the impact on relevant objective (g) is neutral. The 'Regulation' referred to in relevant objective (g) is the EU regulation concerning access to national gas transmission networks<sup>8</sup> which forms part of the Third Energy Package. Relevant objective (g) was inserted into Standard Special Condition A11 of the Gas Transporters Licence as part of implementation of the Third Package but the EU Gas Security of Supply Regulation does not form part of that suite of legislation.

We are also satisfied that the modification is consistent with the Authority's principal objective and wider statutory duties.

Although not a part of the modification, we welcome the assurances NGG NTS have given in relation to the provision of information on the reasons for issuing an MN or GDW. This should further improve the information available to market participants.

## **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporter Licence, the Authority hereby directs that modification proposal UNC415: 'Revision of the Gas Balancing Alert Arrangements' be made.

**Emma Kelso**  
**Associate Partner, Wholesale Markets**

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

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<sup>8</sup> Regulation 2009/715/EC of the European Parliament and of the Council of 13 July 2009 concerning conditions for access to the national gas transmission networks and repealing Regulation 2005/1775/EC, as amended by the 2010 Amending Decision