Some further thoughts on the role of the extent of the DN's role in daily system balancing:

- In brief, the model that has been proposed by NGT is based on the assumption that the DN owner would manage the physical system balancing within its network and the key daily interaction with the NTS system operator would be the nomination of aggregate flows at relevant NTS offtakes in accordance with the limits set out in the Offtake Code.
- In other words, it is understood that under NGT's proposed approach, in addition to managing the investment/planning of its DN, the DN owner will be responsible for managing the daily physical balancing of its system through various sources of flexibility including NTS linepack, linepack within its own system, local storage and interruption. That is, for daily management of its system the DN operates autonomously. However, overall residual energy balancing across the system as a whole remains the responsibility of NGT.
- In order to achieve this each DN owner will ultimately need to establish its own DN system operation control centre that interacts with both shippers and customers that use and are connected to its system.
- At the DISG meeting held on 3rd Feb, NGT explained that its proposed model is based upon the existing arrangements within NGT and it was indicated at the meeting that these functions are currently carried out by its four distribution control rooms (operations centres), that is the DNs already operate autonomously. However, it would seem apparent that not all DNs operate in isolation as suggested by NGT since there are 8 DNs and only 4 distribution operation centres. Furthermore, it has also been said that moves are being taken by NGT to centralise the activities of the 4 existing distribution operation centres at Hinkley. This, taken with previous claims by NGT that within day offtake activities by customers connected to the distribution networks cause it problems in its role of NTS system operator (including residual GB energy balancing), suggest that NGT *currently* have a rather more integrated approach to the management of the gas system than is being proposed. That is, we are not clear that the role of the DNs is currently as autonomous as NGT claimed at the last meeting. We need this point clarified as a matter of urgency as it has significant implications for the various alternative models under discussion.
- There is also concern that highly autonomous DNOs that manage the distribution networks independently from the management of energy balancing activities will inevitably lead to a more complex industry model and potential for increased divergence from a "universal network code".
- Nevertheless, Ofgem's preferred option is for interruption on the distribution networks to be managed by the owner of the network on the basis that the decision to contract for interruption is (perceived to be) an integral part of the investment decisions that the DN owner will be responsible for.
- In order to meet Ofgem's objectives in respect of a DN owners's accountability for contracting for interruption (and the scope therefore for individual DN's to develop and gain benefits from individual investment strategies) and to alleviate the issues/concerns that have been identified with NGT's proposals for a autonomous DNO, the following alternative model is proposed:

    - There is recognition that NGT carries out the function of a GB Gas System Operator (NGTSO).

- Network operators (ie NTS and DNOs) each have an obligation to meet 1:20 peak day demand on their respective systems and are therefore each responsible for the planning/investment strategy associated with meeting this obligation on their own networks. [this is consistent with NGT's proposed model]
- In fulfilling this obligation, each DNO will either invest in additional assets, decide to utilise diurnal storage/linepack associated with its own system and that made available to it from the NTS or enter into interruptible contracts. In doing so, it is recognised that there will be a need for co-operation/co-ordination between NGT (both as NTS network owner and GB system operator) and DNs. [this is consistent with NGT's proposed model]
- Having established its preferred mix of options, the DNO makes these assets, linepack and interruption contracts available to NGTSO to enable it to manage constraints across the whole of the GB gas system. NGTSO would be responsible for notifying shippers/customers of interruption on the distribution networks and would inform the relevant DNO. [this is different to NGT's proposed model]
- In using the flexibility "tools" made available to it by the network owners, NGTSO does not discriminate between network owners.
- To the extent that the flexibility "tools" provided by the network owners are insufficient for the purposes of NGTSO in its role of balancing the whole GB gas system on a daily basis, further co-ordination/co-operation will be required between the various parties during the planning process.
- This model necessarily means that a direct contractual relationship would exist between DNOs and shippers and it follows that each DNO would be responsible for charging, credit management and recovery of monies associated with the use of its system. However to avoid unnecessary fragmentation of transportation billing arrangements such process could continue to be managed by NGT on behalf of DN owners.

- The advantages of this proposed alternative model are:
  - The DNOs make the necessary investment decisions associated in meeting their 1:20 obligations and where the use of interruption, linepack etc is appropriate as alternatives to investment. As such, each DNO retains the responsibility of determining the most efficient investment and overall use of its system.
  - The GB gas system continues to be managed on a daily basis in an integrated manner with one entity being responsible for the overall residual energy balancing and the physical/capacity management of the system.
  - Minimised change to existing shipper operations.
  - The interfaces between DNOs, shippers and NGTSO will be less complex and more efficient and will not therefore require the creation of 8 "sophisticated" distribution operation centres.

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06.02.04