NGT UK Transmission response to the Ofgem Regulatory Impact Assessment: "3rd Party Proposal: Publication of Near Real Time Data at UK sub-terminals Modification Reference Number UNC 006 (0727) May 2005"

Introduction

We continue to support the principle of increasing the availability of gas-related commercial and operational information where clear benefits, in excess of cost, can be demonstrated hence we welcome the opportunity to review the assessment of costs and benefits pertaining to the energywatch Proposal and we agree that some aspects of this Impact Assessment are difficult to quantify.

We understand the basis for the Proposer in providing its own cost-benefit analysis to support the Proposal but we do however welcome the recognition within the Impact Assessment that these benefits might have been overstated.

Within our response to the Impact Assessment, we have provided; a summary of our key concerns, clarification of the position of Transco NTS when specifically requested in the IA (Appendix A) and a detailed response to Section 5 (Appendix B).

Summary

In summary, we believe that the implementation costs and risks presented by any approval of this Proposal outweigh the benefits and hence, would not be in accordance with our relevant Licence objectives; the economic and efficient operation of the NTS pipeline system, and, of the facilitation of markets and competition between suppliers and Users. We firmly believe that information that is currently available to the market delivers the majority of those benefits claimed in the Impact Assessment.

We wish to highlight our key concerns in relation to the potential implementation of this Proposal:

Cost benefit assessment

- We would question how the range of potential benefits (Figure 5.2) are of the same magnitude of the combined benefits that arise from the DTI 'Voluntary Scheme' and the provision of information that has been achieved through other initiatives for example, the Information Exchange Project.
- The IA[1] has indicated that in order to realise the estimated system balancing benefit of £2.5 million (taking into consideration the benefit delivered through the DTI voluntary scheme), *"… the market would need to be informed of the magnitude and expected duration of an offshore outage…".* We note that the Proposal is only seeking the publication of sub-terminal flow data and we would therefore, question the relevance and inclusion of this particular requirement within this IA.
- We are not convinced that increasing the visibility of offshore outages would necessarily lead to improved efficiencies within the market. Dependent on the scale and duration of an offshore outage, the market might not afford participants with an opportunity, or the participants might choose not, to respond to the signals that such information might provide.
- As a consequence of the recent confirmation of certain requirements (frequency of publication) from the Proposer, we have undertaken a preliminary reassessment of the IT systems development and revised our estimate of costs to £1.4 million with a suggested earliest implementation during Q4 2006.

Transparency, market efficiency and security of supply

- The IA has not sufficiently recognised the adverse impact (and costs) of publishing potentially poor quality data to the market. We believe such publication could lead to market inefficiency and volatility in some circumstances and have implications for the security of GB gas supplies.
- We do not believe this Proposal would improve security of supply to the extent that has been expressed within the IA. Our rationale for this view is directly related to the concerns associated to the potential withdrawal of offshore information and, the issues associated to metering equipment and data quality.

[1] sections 5.49 and 5.52

Accuracy of metering and data quality

- We agree that issues of data accuracy alone should not necessarily prevent the release of information. However, we remain concerned that the IA has not adequately acknowledged either the technical problems associated to the existing NTS metering equipment, nor the data quality issues that might arise as a consequence of the different metering types between (and within) sub-terminals and storage facilities.
- We do not believe that the potential risks associated to those metering and data quality concerns that were identified in the Draft Modification Report (DMR) were overstated. We believe that these concerns and their potential consequences should be fully understood by all market participants, prior to any implementation of the Proposal.

Withdrawal of information

- We continue to believe there is a genuine risk that upstream participants might withdraw from the voluntary information provision arrangements. Should this occur, there would be a detrimental impact on the ability of Transco NTS to manage its NTS pipeline in an efficient and economic manner.
- We believe there is a direct linkage between the temporary Licence derogation, the provision of Transporting Britain's' Energy (TBE) information and the Proposal. Whilst the IA indicates that these should be treated separately, we believe that there is a risk the upstream participants withdraw from those voluntary arrangements agreed for the DTI Phase 1 and Phase 2 should the Proposal be implemented.
- This particular 'linkage' has been raised and discussed between the DTI, Ofgem, Transco NTS and representatives of upstream participants within the DTI Information Initiative during the period 2003-2004.

Contract renegotiation

- We agree that there are a "small number" of legacy contracts but these should however be considered in the context that they represent a significant proportion of, and therefore, a greater contractual and commercial risk to, the supply of gas to the GB market.
- We are concerned that the IA has suggested the renegotiation of these legacy agreements would appear to be relatively simple. We believe that the renegotiation of these agreements would only be successful where both parties are willing and able to do so.
- Any negotiation of new agreements is predicated on the Delivery Facility Operator (DFO) being willing to enter into such an agreement. Historically, DFOs have been reluctant to enter into new agreements with Transco, unless they offer a substantial advantage, due to the complex offshore contractual arrangements that might be impacted.
- The IA has recognised the potential for costs and timescales that might be required for the renegotiation of the bilateral (and legacy) contracts between Transco NTS and the upstream participants. We believe that the costs and benefits assessment should be reviewed with a view to the inclusion of an appropriate estimate of the costs that would be required for the purposes of contract renegotiation.

Conclusion

We believe the risks and costs associated to any approval of this Proposal would not outweigh the benefits as described in the IA. We further believe that the risks of the offshore parties withdrawing from the voluntary information arrangements and, the potential publication of erroneous data to the market would have a detrimental effect on the ability of Transco NTS to meet its obligations in furthering the relevant objectives of its Gas Transporter Licence; efficient and economic operation of the NTS pipeline and, the facilitation of market competition.

Appendix A

Response to Transco NTS specific questions:

1. Section 5.8 Revised draft legal text - SUBJECT TO CONTRACT

UNC Modification Proposal Number 006
3rd Party Proposal: Publication of Near Real Time Data at UK sub-terminals
Draft Legal text

TPD Section V

Amend paragraph 5.9.1 to read as follows:-

5.9.1 Subject to the provisions of paragraph 5.9.2 and the other provisions of the Code, Transco NTS shall arrange for the data referred to in Annex V-1 ("**operational and market data**") to be published or made available in the manner specified in Annex V-1.

Amend paragraph 5.9.2 to read as follows:-

5.9.2 Transco NTS shall not be obliged to publish or make available operational and market data pursuant to paragraph 5.9.1 where:

(a) that data is not available to Transco NTS; or

(b) Transco NTS is prevented from disclosing such data by virtue of an obligation of confidentiality owed by Transco NTS to the person who provided such data to Transco NTS or by Transco NTS to the owner of such data.

Amend Annex V-1 to read as follows:-

Annex V-1: Table of Operational and Market Data

Column	Name	Description
1	Data	data definition and indication of the time period to which the data corresponds
2	Timing	initial publication timing and where appropriate, timing of updates if the data is subject to any change
3	Format	tabular, graphical, other
4	Presentation	downloadable, viewable or both
5	Disclosure	public or restricted (and if restricted, list of entities to whom the data can be released)

Data	Timing	Format	Presentation	Disclosure
The rate of flow of gas (in MSCM per Day) over a 2 minute period into the NTS from each Storage Facility [capable of flowing (in aggregate) more than 10 MSCM per Day of gas into the System][2].	Every 12 minutes, in respect of the six 2 minute periods commencing 24 minutes before the time of publication and ending 12 minutes before the time of publication.	[Tabular]	[Viewable]	[Public]
The rate of flow of gas (in MSCM per Day) over a 2 minute period into the NTS at each Individual System Entry Point [capable of flowing (in aggregate) more than 10 MSCM per Day of gas into the System][3].	Every 12 minutes, in respect of the six 2 minute periods commencing 24 minutes before the time of	[Tabular]	[Viewable]	[Public]

[2] Wording subject to further revision following further discussion with the proposer in relation to this point.
[3] Wording subject to further revision following further discussion with the proposer in relation to this point.

	publication and ending 12 minutes before the time of publication.			
The rate of flow of gas (in MSCM per Day) over a 2 minute period into the NTS at each Aggregate System Entry Point [capable of flowing (in aggregate) more than 10 MSCM per Day of gas into the System][4].	Every 12 minutes, in respect of the six 2 minute periods commencing 24 minutes before the time of publication and ending 12 minutes before the time of publication.	[Tabular]	[Viewable]	[Public]

SUBJECT TO CONTRACT

2. Section 5.83 - IS development costs and implementation timescales

Following an extraordinary UNC Transmission Workstream meeting held on 15th June 2005, energywatch was requested to provide clarification of their requirements for this Proposal including the definition of 'near real-time' and the basis for the 10mcm/day trigger.

We have now received confirmation from energywatch of its definition of publishing 'near to real-time'. This has been expressed as blocks of 2 minute flow data that will be published every 12 minutes. We are now progressing the basis for the definition for the > 10 mcm/d trigger with energywatch and additionally, we will also be contacting the upstream participants to provide confirmation of those sub-terminals that are captured by the Proposal.

There had been an assumption that the publication of this information would be on an hourly basis and the original impact analysis (costs of £650,000, implementation Q2-Q3) was predicated on this assumption.

We wish to clarify that the IT SCADA controls systems, including the Integrated Gas Management System (iGMS) that will provide the source data for this Proposal is utilised, and deemed essential, by Transco NTS in the safe and secure operation and management of its NTS pipeline system. The IT SCADA systems are therefore designed to enable Transco NTS to manage its pipeline system in a physical manner rather to be used commercial purposes i.e. the provision of data.

We have commenced a detailed systems impact in order to confirm the development timescales and costs, taking into consideration the recent confirmation of the detailed requirements from the Proposer. The initial assessment of this revised impact indicates system development costs of £1.4 million with an expected earliest implementation during Q4 2006.

3. Section 5.125 – Ownership of data

From the assessment of our legal position, we would be able to disclose any flow data that was sourced from metering equipment that was owned by Transco NTS, should such an obligation arise, as this would afford it protection from Section 105 of the Utilities Act.

The current position is that we do not own, nor have any obligations to correct within day NTS entry measurement data. For the purposes of this Proposal, whilst Transco NTS would consider itself as having an obligation to provide 3rd party data to the market, it would not be prepared to guarantee the accuracy nor the timeliness of the data; although it would attempt to publish the information in accordance with its UNC obligations. Further, we would not accept any claims for liability that might arise from participants that had suffered any consequential losses as a result of using the data for their own commercial decision making purposes. For this purpose, we would anticipate the publication by Transco NTS of liability disclaimers along with the data that it was obliged to publish by the Proposal.

[4] Wording subject to further revision following further discussion with the proposer in relation to this point.

Appendix B

NGT detailed response to the IA

Section 5 - Costs and benefits of the proposal

Current baseline

We welcome and support the view expressed within the Impact Assessment (IA) that it is important to establish the baseline against which this Proposal should be considered. We agree that it is appropriate to assess the cost benefits of this proposal against a current baseline that includes all of the agreed DTI information deliverables.

Information intended for release under the Proposal

Comparison between information flows

We agree that it is useful to distinguish between the different types of gas supply information that might provide benefits to the market. As such, we believe that the comparison (Table 5.1) should also include similar information categories that Transco NTS already publishes for example, the DTI Category 2 report (hourly forecast flows into the NTS) and the hourly System Status report (Opening Linepack, Projected Closing Linepack and national Demand). Whilst the reporting frequency and latency of these reports are hourly, we believe that the provision of this information already provides the market with important signals relating to the operation of the NTS pipeline and an indication of the overall system balance.

Timing of information release

At an extraordinary UNC Transmission Workstream meeting held on 15th June 2005, the Proposer's representative was requested to provide clarification of the requirements of this Proposal including the definition of 'near real-time' and the basis for the 10mcm/day trigger. During the meeting, the representative agreed to provide written confirmation of the detailed requirements.

We have received the written confirmation of these requirements from the Proposer's representative and we have provided a revised draft of the UNC legal text (see Appendix A to this response). In addition, these confirmed requirements are now being factored into the detailed IT systems impact assessment that we are undertaking.

Our initial assessment of the revised impact indicates system development costs of £1.4 million with a suggested earliest implementation during Q4 2006.

Assessment of costs and benefits

We support Ofgem's view that it *"… considers it important to ensure that the impacts being considered are those that result from the implementation of the actual proposal"*.

The schematic illustration (Figure 5.2) of the potential benefits and costs that is contained within the IA provides a useful comparison to assess the current baseline. We agree that the implementation of this Proposal would see additional information being made available to the market, however, we are not convinced that the range of potential benefits for this Proposal is of the same magnitude of the *combined* benefits that arise from the DTI 'Voluntary Scheme' and, the provision of information that has been achieved through other initiatives, for example, the Transco NTS Information Exchange Project during 2002-2003.

We would seek and welcome clarification as to how the implementation of this Proposal would derive a similar level of benefit to that of the wide range of operational and commercial information that is already published to the market by Transco NTS.

Benefits

We agree that the provision of timely and accurate flow information might assist the market with an improved understanding of the supply curve and thus might improve responsiveness to short term market conditions. However, we believe that the advantages of such information provision should be considered against the potential disadvantages, that it might actually place market participants into a commercially exposed and disadvantaged position.

If the publication of disaggregated flow data appeared to indicate that a sub-terminal had encountered a supply problem, the Delivery Facility Operator (DFO) and all the Users that were sourcing their supplies through that facility might become commercially distressed buyers (or sellers) as the market became aware of the situation. Dependent on the size of the facility and scale of the supply problem, this might also place Transco NTS, in its role of residual system balancer, into a distressed commercial position within the market should it become necessary to rebalance the system. Inevitably, there would be times when the provision of such flow information to the market would lead to inefficiencies and volatility of price signals as a consequence of the reactions of the participants within that market.

Economy and Efficiency

Economic signals

We broadly support the view that the market might benefit when participants have the ability to assess a full range of information that might be available. However, as demonstrated by the thirty-one respondents to the Draft Modification Report (DMR), there is a polarised view as to the level of benefit that might be attained with the implementation of this Proposal.

We agree that in the longer term the publication of this information might address some of those concerns expressed by some participants in relation to the movement of market prices during periods of operational uncertainty. However, with the provision of this information, it should not be assumed that this would provide the market with signals as to the efficiency or reliability of offshore supplies.

The flow information that Transco NTS receives is sourced from the metering equipment at the NTS entry point(s) and whilst this might provide a signal to the market of offshore problems, it must be recognised that there are other operational, commercial or technical reasons as to why a supply flow has changed. Of further consideration is that the Proposal is required only to publish post-event flow data and therefore, it would not provide any advance indication of changes of flow, nor the reasons why a flow had changed.

Summer 2003 Interruptions

The issues surrounding the summer 2003 interruptions, including a perceived lack of information have been discussed at some length. We note the views expressed that the provision of sub-terminal flow data at that time might have improved the transparency within, and efficiency of, the market.

It should be noted that these interruptions occurred prior to the delivery of the DTI Information Initiative and agreement was subsequently reached that Transco NTS would provide the market with hourly forecast (Category 2) and actual physical flows (Category 1) into the NTS, albeit on an aggregated on a North/South basis. We agree that the market does place value on this type of information; the market has demonstrated this by the reference to, and use of, the DTI Category 2 data within the gas trade press.

We believe that the existing provision of within-day information for example, System Status (Linepack), forecast demands, nominated system imbalance and capacity related information; together with the additional DTI information that is published by Transco NTS does provide the participants with an improved capability in which to assess their physical and/or trading positions within the market against the aggregate system supply-demand.

Gas and electricity market interactions

There are differences between the gas and electricity markets, both in terms of physical characteristics and trading arrangements and we believe that it is these differences that might potentially expose participants in the market when a supply problem occurs. We agree that there are interactions between these two markets and this is particularly relevant now that approximately 40% of GB electricity generation is achieved through the use of gas.

We are mindful that whilst there are benefits to the provision of flow data to the market(s), there is a risk that participants in one market could misinterpret data and thus potentially lead to inefficiency and volatility not only in that market, but also in other, adjacent markets.

System Balancing

We note that the IA indicates that a reduction in the system balancing actions by Transco NTS might result from the implementation of this Proposal however, we believe that this is largely theoretical and should be put into context of the existing evidence. In the last three years, Transco NTS in its role as system balancer has reduced the number and volume of actions it takes on the On-the-day Commodity Market (OCM). Further, from a system balancing perspective, Transco NTS currently accounts for less than 6% of the total traded volumes on the OCM.

Table 1. ***Transco NTS actions taken on the OCM for the purposes of system balancing***

Calendar Year	Buy (Cost)	Sell (Revenue)	Totals
2002	£18,343,432.09	£37,113,355.74	-18,769,924
2003	£29,566,220.36	£18,040,914.98	11,525,305
2004	£15,751,144.04	£24,786,694.62	-9,035,551

Calendar Year	Number of Trades (Buy)	Number of Trades (Sell)	
2002	1,270	2,960	4,230
2003	1,723	1,234	2,957
2004	806	1,373	2,179

The IA has indicated that during 2004-2005 (Gas Year), Transco NTS purchased gas for £17 millions and sold gas for £26 millions. The net effect of these system-balancing actions resulted in benefit of £9 millions into gas balancing neutrality and this was subsequently apportioned as revenue to the Users based on their daily throughput.

In its role of residual system balancer of the NTS pipeline (and NTS Shrinkage Provider) and as a participant in the gas market, any actions taken by Transco NTS during periods of market volatility might result in increased prices. This would inevitably lead to higher system balancing costs for the community. The consequence of this volatility in the market is that the Users might pass these higher balancing costs through in the form of increased gas prices to their customers.

Reductions in gas flows

We believe that unless upstream participants provide additional detailed information, the publication of information as outlined in this Proposal would not facilitate an appropriate level of notification to the market of unplanned offshore outages.

Efficiency of actions

We believe that under the existing arrangements, the use of the OCM by Transco NTS in its role as residual system balancer and, by taking actions on the OCM, its setting of market prices (SMP buy and/or SMP sell), provides a useful tool to encourage market participants to balance their own supply-demand portfolio. We also believe that system-balancing actions taken by Transco NTS on the OCM provides the market with signals as to the supply-demand position and to an extent, provide an appropriate incentive for users to self-balance.

We support the view that "… *Ofgem considers it important to ensure that the impacts being considered are those that result from the implementation of the actual proposal",* but we are unclear and seek clarification as the estimate provided by Ofgem in this IA that benefits to the market of £5 millions could be achieved by the implementation of this Proposal.

The IA indicates that in order to realise the estimated system balancing benefit of £2.5 million *"… the market would therefore need to be informed, in real-time, of the magnitude and expected duration of any offshore outage that is likely to cause an imbalance on the system …"*.

However, the Proposal is only seeking the provision of near real-time sub-terminal (metered) flow data and therefore, we would question whether it is appropriate to identify *the magnitude and expected duration of offshore outages* as part of the estimated benefit of £2.5 million within this IA.

Market volatility

It is agreed that the provision of timely and accurate information, in a transparent market might be expected to reduce the effect of rumours on market prices and, therefore, have a beneficial effect that lessens volatility within that market.

We also agree that market prices should reflect the underlying supply-demand fundamentals that whilst might result in a degree of volatility, and are uncomfortable, are nevertheless cost reflective.

We continue to believe that there is a risk that the implementation of this particular Proposal will lead to increased volatility that is caused not by supply-demand fundamentals but rather those caused by issues relating to metering equipment and; the timing and accuracy of the underlying systems and processes that source the flow information. As recognised by most of the respondents to the DMR, it is the publication of timely and accurate flow information that would provide an optimum level of transparency and confidence to the market rather than the publication of inaccurate, near real-time flow information.

Of further consideration is that we believe it is not a change in the GB gas supply-demand fundamentals that is currently driving higher gas prices for the GB customers. Anecdotal evidence suggests that it caused by a combination of market sentiment, the indexation to higher oil prices and, the physical and commercial linkage between GB, European and latterly, the global gas markets.

Meter accuracy

In response to the comments made in the IA, we remain concerned that the accuracy and reliability of NTS entry metering equipments and associated telemetry might result in the publication of misleading information to the market.

In the electricity industry, it is essential that metering equipment is required to accurately record power generation on a minute-by-minute basis, through the day. Of further consideration, is that within the electricity market, the power generation data is subject to close-out on a half-hourly basis within the day i.e. 48 settlement periods over the 24 hour period.

This is in contrast to the gas market where the balancing period will close-out once every 24 hours and although the NTS entry metering equipment is generally accurate and reliable, it is not required to record actual flows with such comparative accuracy during the day. Indeed, this is demonstrated by the fact that within the current GB energy balancing regime, the end-of-day measurement (last reference point for allocation purposes) of the NTS entry points, for example, sub-terminals and storage facilities, are not closed-out (finalised) until D+5.

In relation to managing the risks associated to market volatility and the publication of inaccurate flow data, we note the suggestion that additional data might be provided alongside the flow data. The Proposal specifically relates to the publication of sub-terminal flow data and has not considered the provision of additional, associated information that might be considered beneficial to the market.

Security of supply

We support the view that delivering security of supply is enhanced where there is an efficient and effective operation of the wholesale gas market. This is important given the rate of decline in future gas supply delivery from the United Kingdom Continental Shelf (UKCS). We also believe that it is essential for market participants to understand not only the GB supply-demand fundamentals but also the linkages and interactions with the European (and global) markets

We do not believe this Proposal will improve security of supply to the extent being expressed within the IA. We believe that currently, the gas market is being driven largely by market sentiment e.g. oil indexation rather supply-demand fundamentals where the GB price of gas is in the order of 30 p/therm. This price is for summer demand of approximately 200 mcm/d despite the estimated beach supply in excess of 300 mcm/d. The current supply/demand conditions are similar to the last few summers; however, in summer 2002 the gas price was ~ 10p/therm, summer 2003 ~15p/therm and summer 2004 ~20p/therm. The market

fundamentals have not changed over this period but market sentiment, and more importantly, the price of oil has increased from $20 in 2002 to $50 in 2004.

Short term

We agree that increasing the transparency of accurate and timely information might provide the market participants with a perceived improvement in the ability to self-balance their own supply demand. We do not necessarily agree with the IA that this Proposal might further reduce the role of Transco NTS as the residual system balancer.

We believe that the full implementation of the DTI Information Initiative from 1st July 2005 will provide the market with enhanced 'before' and 'within-day' NTS entry flow data. This will increase transparency in the market and assist participants to better understand the short term supply-demand position.

Long term

We do not believe that the implementation of this Proposal would afford benefits to the longer term security of supply as there are other categories of information that provide the market with longer term investment signals. We are of the opinion that it is the NTS entry capacity regime that provides these investment signals through the use of market mechanisms, typically the long, medium and short term (within day) capacity auctions.

We agree with the view expressed in the IA that *"… the provision of this information is unlikely to be conclusive in itself"* as for example, historically, we do not believe that the publication of within-day flow information at the Isle of Grain facility would have provided any long term investment signals to the market.

Impact on customers

We believe that Users (and customers) should be encouraged to respond to beach supply problems by offering their demand-side activity on the market, for example, providing interruption on the OCM.

The IA compares how the market (demand-side) responded to two separate events; the Summer 2003 interruptions and the period of high gas prices in February and March 2005. It is suggested that during the period of high gas prices in 2005, the demand-side provided an estimated response of 16mcm whilst during the Summer 2003 interruptions, because of a lack of disaggregated information there was little evidence of voluntary demand-side response. This is an interesting point as the flow information published by Transco NTS, essentially the within-day linepack, projected closing linepack, system/LDZ demand forecasts and system level nominated imbalance position was available to the market during both events. Further, both these events occurred prior to the implementation of the DTI Information Initiative (Phase 3) that was agreed would deliver improved within-day, NTS entry forecast and actual flow data to the market.

Environmental impact

Whilst we understand the rationale, we remain to be convinced that the implementation of this Proposal would *"… yield benefits associated with improved system balancing… ".* We believe that it is difficult to both quantify the scale of, and measure such benefits against the Proposal.

Costs

IT systems development

A high level impact assessment was included in the DMR to assist the participants with their understanding of the potential timing and costs associated to this Proposal and, to assist the Authority to make an informed and balanced decision.

As indicated in the DMR, Transco NTS did anticipate that should the Authority direct the implementation of this Proposal, it would be necessary to undertake a full and detailed impact assessment of the IT system development timescales and costs.

Please see our comments in Appendix A for additional information.

Contract Renegotiation

Risk of liability to Transco NTS

We agree that the majority of contracts that were provided to Ofgem could enable the disclosure of information but there are several contracts that would require Transco NTS to seek the permission of the data owner prior to the wider release of the information. It is important that the IA considers the timescales and costs of renegotiating any contracts that a 3rd party might deem Transco NTS was in breach; as a consequence of the implementation of this Proposal.

We agree that there are a small number of legacy contracts in place but this should be considered in the context that these contracts represent a significant proportion, and therefore, risk to the supply of gas to the GB market. Thus, whilst the number of these contracts is small, the costs and risks associated to any legacy renegotiation should be carefully considered as part of this IA.

Renegotiation

We do believe that the issue of the legacy contracts requires resolution between the respective parties, especially in relation to the provision of data information to Transco NTS. It should be noted that any negotiation of new agreements is predicated on the DFO being willing to enter into such an agreement. Historically, DFOs have been reluctant to enter into new agreements with Transco NTS, unless they offer a substantial advantage, due to the complex offshore contractual arrangements that may be impacted.

We have approached all the DFOs to discuss the possibility of replacing legacy arrangements and have succeeded in replacing three contracts. However, we are mindful that there are neither statutory requirements nor commercial incentives that could persuade a DFO to enter into negotiations.

We believe that unless clear benefits can be demonstrated to the DFO then we would question whether the existing legacy arrangements could readily be replaced.

It is also worth highlighting that where DFOs have been willing to enter into negotiations for a new Network Entry Agreement (NEA), it has taken on average 18–24 months to replace the legacy arrangement. We believe, that for all parties involved, a number of challenges would need to be overcome if we were to attempt to simultaneously replace the remaining legacy arrangements.

Commercial sensitivity

We understand the view that the aggregation of co-mingled streams from the offshore fields should provide a degree of commercial protection to the point of the NTS entry point, however, we continue to believe that the publication of flow data at this granularity could lead to inefficiencies within the market.

We believe that the publication of this data might place the upstream producer(s), the Delivery Facility Operator(s) and the Users that transport their beach gas supplies through a sub-terminal (storage facility) into a disadvantaged position in that they would become commercially exposed to the market.

Risks and Unintended consequences

We agree that there are elements of risk that should be considered by this IA. Some of these risks have previously been discussed, for example, the potential withdrawal of offshore information, during the development of Modification Proposal 0593 “Obligation on Transco to publish TFA data” and more recently, during the consultation on this Proposal.

Withdrawal of information

We believe that there is a genuine risk that upstream participants might withdraw from those voluntary arrangements that were agreed during the DTI Information Initiative; and that this would have a detrimental impact on the ability of Transco NTS to manage and operate its NTS pipeline in an efficient and economic manner. The DTI Information Initiative (Phase 1) has resulted in the improvement of the provision of information, specifically, the standardisation of the format and timing of receipt of Delivery Flow Notifications (DFNs) and Storage Flow Notifications (SFNs), and, information relating to the impact of unplanned offshore outages. Phase 2 of this initiative has seen agreement that the upstream participants will provide Transco NTS with improved information relating to future offshore supplies, outages and planning. The information that Transco has gained from Phase 2 has been very beneficial in the Transporting Britain’s Energy (TBE)

process that is used to produce the annual 10 Year Statement. Phase 2 has also afforded Transco NTS with the opportunity to publish the DTI Category 3 "Beach Availability in respect to Planned Maintenance" report to the market on a regular basis. Further, any material changes that are notified to Transco NTS are then published to the market.

The information that we receive from upstream participants is integral to the system operation role undertaken by Transco NTS, both in the day-to-day operational activities and, the longer term planning management activities. Some market participants have questioned why, if the information is so integral to Transco NTS activities that it has not been secured either through legislation, regulatory or contractual arrangements. Our response to this is simple, until now, encouraged by our publicly stated position that we would not publish 3rd party information without the permission of the data owners, we have continued to receive information from upstream participants on a goodwill basis.

In relation to the *"lack of clarity"* of the linkage between the temporary Licence derogation, the provision of the TBE information (DTI Phase 2) and this Proposal, whilst these might appear to be separate, we would suggest that the upstream participants might be inclined to withdraw from the voluntary arrangements agreed for DTI Phase 1 and Phase 2 should the Authority direct the implementation of this Proposal

Given the potential risk associated with the implementation of this Proposal, we do agree that it would be prudent to secure any voluntary information that is currently provided to Transco NTS for the purposes of managing and operating the NTS pipeline.

Potential for future mandatory arrangements

We support the view that it might become necessary to put in place mandatory arrangements for the provision of offshore information to Transco NTS.

In our response to the Ofgem initial consultation and draft impact "Offshore gas production information disclosure" dated February 2005, we have however, questioned whether it is prudent to place obligations on Transco NTS to publish 3rd party data, for example, the implementation of this Proposal, prior to securing information from these 3rd parties on a mandatory basis.

Aggregation

We understand the view that the aggregation of co-mingled streams from the offshore fields should provide a degree of commercial protection to the point of the NTS entry point, however, we continue to believe that the publication of flow data to this granularity could lead to inefficiencies within the market.

As previously suggested in this response, we believe that the publication of within-day, flow data by sub-terminal or storage facility might lead to a greater risk of commercial exposure to both the Delivery Facility Operator (DFO) and the Users that use the facility to provide their gas supplies.

Should, through the publication of the flow data, the market 'identify' there is a potential supply problem, then the parties that are active at the facility might become distressed buyers (or sellers) through their commercial exposure to the market. Consequently, this commercial exposure might lead to greater volatility within the market and gas prices not reflecting the underlying supply-demand fundamentals.

Duplicate metering

Whilst the installation of duplicate metering was not a stated requirement within the Proposal, we do believe there is a risk that it might become a requirement should the upstream participants withdraw from the voluntary DTI information arrangements or, it was considered that Transco NTS had breached the terms of the bilateral contracts.

We agree that the renegotiation of the existing bilateral and legacy contracts is a viable option to the installation of duplicate metering but experience to-date suggests that this might require a protracted timescale of approximately 18-24 months. As suggested in the IA, we agree that the installation of duplicate metering might not be the most effective or efficient method of obtaining this information.

Data accuracy

We continue to believe the issue of data accuracy, combined with the technical problems that *do* arise from the NTS entry metering equipment and its associated telemetry should be fully understood by all participants within the market.

We agree that the potential for data inaccuracy alone should not prevent its release to the market. Opinion has been expressed that Transco NTS is being 'overly protective' and that 'the market should decide on the usefulness of the information' and, to an extent, we agree with this opinion.
However, as indicated in the DMR, Transco NTS would be failing in its Licence obligations if it did not make the market aware of the potential data quality issues, and of the adverse impacts this might have on the efficient and economic operation of both the market and, on the system operation activities that are undertaken by us.

With respect to the accuracy of sub-terminal metering, we believe that whilst the equipment is generally accurate and reliable, it is not required to record actual instantaneous flows with such comparative accuracy during the day. Indeed, this is demonstrated by the fact that within the current GB energy balancing regime, the end-of-day measurements of the NTS entry points, for example, sub-terminals, do not 'close-out' until D+5.

We believe that there is a risk the market might misinterpret data where unusual or unexplained decreases (or increases) have occurred in the flow pattern of a specific NTS entry point. However, the market would still have the ability to assess these changes by utilising the DTI information i.e. hourly forecast and physical flows into the NTS as comparative reference points.

We agree that it is important that any information should be published in an equitable and timely manner to all market participants. With respect to the characteristics described in the IA, we can confirm that the form and usability will be of the same standard that has been applied to the delivery of the DTI Phase 3 'within day' reports, with provision through the Transco NTS Information Exchange website.