

The Joint Office, Relevant Gas  
Transporters and other interested  
parties

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Dear Colleague

### **Uniform Network Code modification proposal 050 “Storage Monitor Adjustment”**

Ofgem<sup>1</sup> has considered the issues raised in the modification report in respect of modification proposal 050 “Storage Monitor Adjustment” and having regard to the principal objective and statutory duties of the Authority<sup>2</sup>, has decided to direct the relevant gas transporters to implement modification proposal 050.

Ofgem considers that modification proposal 050 would better facilitate the achievement of the relevant objectives of the uniform network code (UNC), as set out under Standard Special Condition A11<sup>3</sup> of the relevant gas transporters’ licences as compared with the existing provisions of the UNC. Ofgem also considers that modification proposal 050 would be consistent with its wider statutory duties.

In this letter, Ofgem explains the background to the modification proposal and gives reasons for its decision.

### **Background to the proposal**

In this section we set out a brief background of the recent developments in the gas industry which led to National Grid National Transmission System (NG NTS) raising modification proposal 050.

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<sup>1</sup> Ofgem is the Office of the Gas and Electricity Markets Authority. The terms ‘Ofgem’ and the ‘Authority’ are used interchangeably in this letter.

<sup>2</sup> Set out in Section 4AA of the Gas Act 1986, as amended.

<sup>3</sup> This Licence Condition can be viewed at: [http://62.173.69.60/document\\_fetch.php?documentid=6547](http://62.173.69.60/document_fetch.php?documentid=6547)

## *Top up*

Until October 2004 top up arrangements existed which meant that NG NTS held or placed gas in store in order to meet any shortfall that it identified when its forecast of gas supplies were compared with its forecasts of firm demand for the forthcoming winter under '1 in 50' severe weather conditions<sup>4</sup>. NG NTS undertook this assessment process by setting 'monitor' levels for different categories of storage site, which defined the amount of gas that NG NTS considered would need to be held in store on each day throughout a given winter to ensure that demand in a 1 in 50 winter could be met. In addition to 'filling' any opening shortfalls (where there is available storage capacity), the top up arrangements required NG NTS to intervene in situations throughout winter where storage stocks would have otherwise fallen below these monitor levels by 'counter-nominating'. NG NTS actions attempted to prevent gas being withdrawn from storage so that the volume of gas still in store was above the monitor level.

### *Network Code modification proposal 710 "Removal of Top-up arrangements"*

#### *Removal of top up arrangements*

In May 2004, Ofgem initiated a review of the top up arrangements<sup>5</sup>. This identified the following issues:

- ◆ that the top up arrangements had the potential to lead to substantial direct costs to NG NTS and substantial indirect costs to customers through higher prices, when the supply and demand position was tight; and
- ◆ that NG NTS's forecast for last winter indicated that because of the tightening of the supply and demand position, the top up monitor levels would be set very high which would be likely to give rise to substantial NG NTS counter-nominations with the prospect of substantial direct and indirect costs being generated by the top up arrangements in 2004/05.

Following this review, NG NTS put forward modification proposal 0710 "Removal of Top-up arrangements", which sought to remove the top up arrangements from Transco's network code, which included the following:

- ◆ the storage bookings and winter injection processes; and
- ◆ the calculation of storage monitor levels, stored gas requirement and top up market offer prices.

On 18 October 2004, Ofgem approved modification proposal 0710, removing the top up arrangements.

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<sup>4</sup> Severe winter weather conditions that would only be expected to be experienced once every 50 years.

<sup>5</sup> 'The review of top up arrangements in gas, Consultation document', Ofgem, May 2004 and 'The review of top up arrangements in gas, Conclusions document', Ofgem August 2004.

## *Introduction of Safety Monitors*

As part of modification proposal 0710, the top up arrangements were replaced with the concept of Storage Monitors. There is now an obligation on NG NTS to publish two monitor levels aggregated by storage facility type by 1 October in each gas year in respect of each storage facility. The "Firm Gas Monitor" covers the total firm demand and is published for information only. The "Safety Monitor" covers those sectors of demand defined in NG NTS's Safety Case (including priority firm daily metered customers and non-daily metered customers). The purpose of the Safety Monitor is to ensure safe run down of the system to protect those customers that cannot be protected by isolation and thereby protect public safety.

Following the publication of the monitor levels, NG NTS currently keeps under review the information upon which the monitors have been calculated and has the ability to:

- ◆ reallocate the Safety Monitor and/or the Firm Gas Monitor between storage facility types in order to enhance the security provided by current storage stocks;
- ◆ reduce a Safety Monitor and/or a Firm Gas Monitor to reflect longer-term demand forecasts; and
- ◆ adjust a Safety Monitor and/or Firm Gas Monitor to reflect the occurrence of severe weather.

NG NTS publishes periodic information in relation to each Storage Facility Type, highlighting the risk of a breach of the Safety Monitor, within operationally significant timescales. Where NG NTS is aware that the Safety Monitor levels have been, or are forecast to be, breached then NG NTS would liaise with the Network Emergency Coordinator (NEC) prior to the NEC declaring a Network Gas Supply Emergency (NGSE).

## *Changes to the NEC Safety Case*

Following the introduction of the Safety Monitor arrangements, the Health and Safety Executive (HSE) stated that it wanted these arrangements to be outlined and demonstrated in the NEC Safety Case<sup>6</sup>. NG NTS considered that in a Safety Monitor breach emergency, it would be inappropriate to allow gas to continue to flow from the affected storage facility/facilities. Therefore, NG NTS submitted a revised NEC Safety Case to the HSE. This included a new type of emergency (a Gas Safety (Management) Regulations (GS(M)R) Monitor Breach Emergency) during stage 1 of which the NEC can instruct shippers and storage operators to amend storage flows. The revised NEC Safety Case was accepted by the HSE in March 2005. It is important to note that there was no consultation with interested parties in relation to these changes to the NEC Safety Case, with the changes being made following bilateral discussions between NG NTS and HSE.

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<sup>6</sup> Requirements relating to the revision of Safety Cases is provided in Regulation 4 of the GS(M)R (see [http://www.opsi.gov.uk/si/si1996/Uksi\\_19960551\\_en\\_2.htm#mdiv4](http://www.opsi.gov.uk/si/si1996/Uksi_19960551_en_2.htm#mdiv4)). In addition, there is a Memorandum of Understanding (see [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/3173\\_hse\\_mou.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/3173_hse_mou.pdf)) between the Authority and the HSE which outlines working arrangements between the two parties which involve co-operation and effective consultation.

As part of its May 2005 Preliminary WOR<sup>7</sup>, NG NTS published its indicative safety monitor levels under two scenarios. In the light of feedback on the consultation document and its view of the impact of the supply shocks caused by hurricanes Katrina and Rita, NG NTS revised its safety monitors as outlined in the Final WOR<sup>8</sup>. The safety monitor levels referred to in these documents are contained in the table below.

Storage type	Preliminary WOR		Final WOR
	Scenario 1	Scenario 2	Base case
Long duration storage (Rough)	6.2%	17.2%	22.9%
Medium duration storage (MRS)	5.0%	12.1%	12.7%
Short duration storage (LNG)	18.2%	54.4%	26.4%

NG NTS also committed to keeping the safety monitor levels under review throughout the winter period.

### Modification proposal

Modification proposal 050 "Storage Monitor Adjustment" was raised by NG NTS as an urgent proposal on 21 September 2005. The proposal seeks to amend the circumstances under which NG NTS may make adjustments to the Safety and/or Firm Gas Monitors, as currently outlined under paragraph 5.2.5 of Section Q. In addition to NG NTS's existing abilities to reallocate or amend the monitor levels, modification proposal 050 seeks to enable NG NTS to increase or reduce the monitor levels where necessary to reflect any material changes in its estimates of expected deliveries to or offtakes from the system<sup>9</sup>.

NG NTS states that this modification proposal would remove a potential discrepancy between the UNC and its obligations under the GS(M)R. The proposer considers that it is required under GS(M)R to take action to minimise the risk of a NGSE, which may require it to reassess and re-set the monitors based on the best information available. On this basis, NG NTS states that this modification proposal is seeking to bring its rights under the UNC in line with its obligations under the GS(M)R.

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<sup>7</sup> 'A Consultation on Winter 2005/06', NG, May 2005 available at:  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11584\\_14405b.pdf?wtfrom=/ofgem/whats-new/archive.jsp](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11584_14405b.pdf?wtfrom=/ofgem/whats-new/archive.jsp)

<sup>8</sup> 'Winter Outlook Report 2005/06', NG, October 2005 available at:  
[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12493\\_214\\_05.pdf?wtfrom=/ofgem/whats-new/archive.jsp](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12493_214_05.pdf?wtfrom=/ofgem/whats-new/archive.jsp)

<sup>9</sup> This is distinct from NG NTS's current ability to adjust the monitor levels in relation to the occurrence of severe weather.

## Respondents' views

This section is intended to summarise the principal themes of the respondents' views and is not intended to provide a comprehensive overview of the responses received.<sup>10</sup>

Fourteen responses were received in relation to modification proposal 050. Of these responses, three (including the proposer) supported the modification proposal, one offered qualified support and 10 were opposed to the modification proposal.

### *Respondents supporting the proposal*

The proposer considered that the intention of this modification proposal is to align the UNC with the GS(M)R obligations. It also noted that it considered it to be appropriate to ensure that the revised legal text specifies that a document outlining the reasons for any changes to the storage monitor levels is appropriate. The proposer also highlighted that in the revised legal text, it clarified that a change to the safety monitors would only be warranted if the underlying supply and demand position was sufficiently material to warrant a change. In the opinion of the proposer a notice period prior to the change in the monitor levels was not appropriate.

One of the respondents in support of this modification proposal was of the view that NG NTS would only alter the monitor levels in order to comply with its statutory obligations under the GS(M)R. The respondent also considered that putting this modification proposal in the UNC would ensure that shippers are fully apprised of the actions that can be taken by NG NTS which affect the commercial regime. It was also considered by this respondent that including this modification proposal in the UNC ensures that NG NTS clearly sets out its intentions to take all appropriate steps to prevent a potential or actual emergency.

A further respondent considered that this modification proposal would increase the security of gas supplies and was, therefore, in support of it, but was concerned as to why it was raised as urgent. This respondent considered that the rationale for the modification proposal had been known for months and considered that if it had been raised earlier shippers would have had more time to cover their exposure to any storage monitor adjustments.

### *Respondents against the proposal*

#### *NG NTS's discretion*

Two respondents considered that it was unclear as to whether an actual discrepancy did exist between NG NTS's GS(M)R obligations and the UNC because the full NEC Safety Case had not been made available to shippers. One respondent considered that it was unclear whether the proposal was a valid requirement and interpretation by NG NTS. In terms of NG NTS's existing abilities to adjust the monitor levels, one respondent thought that NG NTS could already adjust the monitors in the event of severe weather and that this modification proposal was not needed because

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<sup>10</sup> Respondents views can be found on the Gas Transporters information service (formally known as Nemisys) ) <https://gtis.gasgovernance.com>

NG NTS should not need to increase the monitor levels in a mild winter. One respondent considered it strange that NG NTS did not seek or request powers to upwardly revise Top-Up levels in similar circumstances under the old arrangements.

### *Commercial impacts*

A number of respondents considered that the proposal would have significant commercial implications for shippers, storage operators and customers whilst leaving NG NTS neutral to its actions. The possible effects of increasing the safety monitor levels in terms of the potential for the system to enter into a NGSE sooner than would otherwise have been the case was raised by several respondents who considered that it could act as an incentive for users to deplete their storage stocks more quickly. One respondent considered that modification proposal 050 would, in particular, lead to a rapid emergency where the market has no time to respond to avert an emergency situation and for shippers to balance their positions. Another respondent offering qualified support for the proposal considered that this modification proposal would have one of two effects. Either it would deter parties from withdrawing gas from storage in case it led to an increase in the monitor levels, or alternatively it would cause users to prematurely withdraw gas to ensure they have access to it before it is 'locked' into store by NG NTS. It was considered that either of these effects would have a detrimental impact on the market this winter.

Several respondents were also of the view that this modification proposal would create a significant level of financial and contractual risk for users. These respondents considered that the modification proposal would, if implemented, introduce significant uncertainty, which could undermine confidence in the market. The opinion that this increase in risk would be passed through to customers in the form of increased risk premia was highlighted by two respondents. Another respondent who did not support the modification proposal considered that it would discriminate against shippers who, in good faith, had secured storage to meet available demand. The potential for this modification proposal to distort the competitive basis under which shippers operate in the market place was raised by one respondent. This respondent also considered that this proposal would undermine the value of shippers' storage bookings, whilst increasing shippers risk ahead of winter.

A number of respondents were of the view that because NG NTS would not be exposed financially to this modification proposal it could mean that NG NTS would be more likely to revise the monitor levels upwards rather than taking more costly actions on the On-day Commodity Market (OCM). The view that NG NTS should consider contracting ahead of the day for demand side actions rather than revising the monitor levels was raised by one respondent. Another respondent was of the opinion that NG NTS should bear some of the costs of maintaining the system security as National Grid Electricity Transmission does in its role as SO in the electricity market. This respondent also considered that NG NTS's Operating Margins gas is there to guarantee system security over tight supply days. The view that NG NTS had already taken into account any uncertainty for this winter by increasing the monitor level at Rough was raised by one respondent who was questioning why this was not sufficient.

### *Effects on long-term storage investment*

Several respondents were of the view that this modification proposal would have a knock on effect on the levels of investment in storage. The potential for this modification proposal to enable NG NTS to interfere with the operation of privately owned natural gas storage facilities was highlighted by one respondent. This respondent understood the need to secure supplies to customers at all times and considered that security of supply to customers supplied with gas from NG NTS network already forms part of the plan for investment in gas storage project. The potential for this modification to hamper the market signals and incentives to invest in new storage sites was also raised by this respondent. Another respondent did not consider that NG NTS licence obligations with regards to safety could be enhanced by allowing NG NTS the right, free of charge to reserve other people's assets.

### *Changes to the Safety Monitor levels*

Several respondents, including the one offering qualified support, considered that NG NTS's ability to set the levels and allocation of safety monitors was opaque and subject to little industry consultation and regulatory oversight and therefore rested on NG NTS's assessment and assumptions with no consultation with market participants. One respondent was of the opinion that relying on NG NTS would not accurately represent the manner in which the market would react in terms of deliveries being available to the system in times of stress. This respondent also considered that the process of re-setting the monitor levels should be subject to scrutiny and challenge. In relation to the process for changing the safety monitors, one respondent considered that any changes should be subject to an industry consultation and then subject to approval or veto by the regulator, much like the consent process relating to entry capacity. Another respondent considered that amending the NEC Safety Case without consultation has led to a situation where the UNC and the NEC Safety Case are misaligned, which creates unacceptable risks for all industry parties concerned.

Another respondent considered that it would be reasonable for NG NTS to give a notice period ahead of any revisions to the safety monitors and suggested that seven days notice was sufficient. A further suggestion raised by this respondent was that NG NTS should be limited as to the number of times the Safety Monitors could be varied throughout the winter period. The one respondent offering qualified support considered that it may be appropriate for a materiality test to be applied before the safety monitor levels could be increased and considered that NG NTS should publish the rationale under which it would decide to increase the levels.

### *Safety Monitor methodology*

One respondent considered that the Authority's decision in network code modification proposal 0710 highlighted the lack of transparency in the calculation of safety monitors and recommended that NG NTS discussed the methodology, which is used to set the safety monitor levels, with industry participants. However, it was noted that because the methodology was outside of the UNC there was no scope for these arrangements to be modified except by NG NTS and therefore considered that users were in a worse position than under the previous top up arrangements. Additionally, the respondent offering qualified support highlighted that while NG NTS had recently

published its conclusion document with respect to the safety monitor levels for this winter, it was still waiting for NG NTS to publish the methodology used to calculate the 2005/06 monitor levels.

### *Process*

The rationale behind raising this modification proposal as urgent was questioned by several respondents who considered that NG NTS had adequate time to raise this modification much earlier. One respondent considered that this should have been spotted earlier as the NEC Safety Case was revised to reflect the introduction of the Safety Monitor arrangements last year. A further respondent considered that this should have been raised with UNC modification proposal 035<sup>11</sup>. Finally, one respondent considered that the Authority should consider whether the number of changes being implemented at short notice is creating uncertainty and confusion in the Industry and therefore having a detrimental impact on security of supply.

### **Panel recommendation**

At the Modification Panel meeting held on 20 October 2005, of the 9 Voting Members present, capable of casting 10 votes, 5 votes were cast in favour of implementing modification proposal 050 "Storage Monitor Adjustment". Therefore, the Panel did not recommend implementation of this modification proposal<sup>12</sup>.

### **Ofgem's view**

Having carefully considered the views of respondents and the Panel, Ofgem considers that modification proposal 050 would better facilitate achievement of the relevant code objectives compared to the existing provisions of the UNC.

Ofgem fully accepts and appreciates the need for the NEC to have access to a volume of gas to ensure that customers can be protected in the event of a gas emergency. We are, however, concerned that the current Safety Monitor arrangements may give rise to perverse incentives on both market participants and NG NTS. Our views on issues surrounding the Safety Monitor arrangements are set out more fully in our decision letter for modification proposal 035, to be published in the next few days.

Given our view that it will not be possible to seek to address these issues ahead of the winter, given the timetable against which NG NTS has raised these issues, it is necessary to consider whether this proposal better facilitates the relevant objectives knowing that deficiencies exist with the current Safety Monitor arrangements.

We now turn to the details of UNC modification proposal 050. Ofgem considers that it is appropriate to consider this proposal against relevant objectives (a) and (d).

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<sup>11</sup> UNC Modification Proposal 035: "Revisions to section Q to facilitate the revised NEC Safety Case".

<sup>12</sup> A Panel recommendation requires a majority vote from voting members at a quorate meeting of the Modification Panel. Paragraph 9.5.5 of the Modification Rules currently provides that where there are an equal number of votes in favour and not in favour of implementation, the Modification Panel is deemed to have recommended non-implementation.

Standard Special Condition A 11 (a) – the efficient and economic operation of the pipe-line system to which this licence relates

*Dynamic storage monitors*

On the basis that the Safety Monitors are intended to ensure safe run down of the system to protect those customers that cannot be protected by isolation and thereby protect public safety, Ofgem considers that it is important for the Safety Monitor levels to change in response to changing circumstances. Ofgem recognises that NG NTS currently has the ability to revise the monitor levels in relation to adverse weather conditions. However, this does not provide the ability for NG NTS to revise the monitor levels in response to other material supply/demand variations. Therefore, Ofgem agrees that it is appropriate for NG NTS to have the ability to increase or reduce the monitor levels in response to NG NTS's material changes in its estimates of expected deliveries to or offtakes from the system. This will enable NG NTS to ensure the efficient and economic operation of the pipeline system, thereby better facilitating the achievement of relevant objective (a). Ofgem notes that a more dynamic approach to the determination of monitor levels is consistent with National Grid Electricity Transmission's assessment of its reserve requirements in its role as electricity SO. This assessment is an iterative process taking into account anticipated supply and demand conditions.

Ofgem additionally considers that providing this flexibility to NG NTS would reduce the potential for perverse incentives which may exist under the current arrangements. As NG NTS cannot at present make revisions to the monitor levels in relation to its projections of supply and demand, it may face incentives to inflate its initial monitor levels and/or to be reluctant to reduce them during the course of a winter because of its inability to make upward revisions to the monitors. While Ofgem acknowledges that NG NTS is obliged under the UNC to keep the monitor levels under review, it also notes the potential for this perverse incentive to exist. Ofgem considers that by addressing this potential perverse incentive, the modification proposal should help to remove any distortions to the existing monitor levels created by NG NTS's current inability to upwardly revise the monitor levels. In this respect, Ofgem therefore considers that this should help to ensure the efficient and economic operation of the pipeline system, thereby better facilitating the achievement of relevant objective (a).

*NG NTS discretion*

Ofgem recognises that respondents were generally concerned about the level of discretion that this modification proposal would afford to NG NTS in respect of the safety monitor levels. As discussed above, Ofgem considers that it is appropriate to give the SO the discretion to vary the monitor levels when considered appropriate, consistent with NG NTS's obligations to ensure efficient, economic and co-ordinated operation of the transmission system. However, Ofgem considers that it is essential for the rationale behind any revision to the monitor levels to be displayed transparently to market participants and assessed on an ex-post basis by market participants. In this respect, Ofgem has asked NG NTS to discuss the status of the monitor levels and to explain any revisions made with market participants on a regular basis at the Operational Forum. Given respondents' concerns on this issue, Ofgem has asked NG NTS to hold Operational Forums at least once a month throughout the course of the winter. This should provide shippers and customers with greater transparency and

an opportunity to challenge NG NTS assessments and assumptions. This should help to build greater confidence that NG NTS will use its discretion appropriately.

#### *Consistency between NEC Safety Case and UNC*

Ofgem acknowledges that in raising modification proposal 050, NG NTS was seeking to align the UNC with the NEC Safety Case. Ofgem considers that, where appropriate, it is important for there to be consistency between the UNC and the NEC Safety Case in order to provide clarity as to the arrangements, which should enhance the efficient and economic operation of the system. However, in this case, Ofgem shares the concerns raised by respondents in relation to the non-transparent manner in which the NEC Safety Case changes were progressed. Given the commercial implications for storage users in particular, Ofgem agrees that NG NTS should have ensured that market participants were consulted in relation to the NEC Safety Case changes. In the absence of any consultation exercise which could have enabled consideration of the commercial implications of the NEC Safety Case change, Ofgem considers that the Safety Monitor arrangements which are now in place may give rise to perverse incentives on market participants and NG NTS. Ofgem considers that this represents a serious deficiency in NG NTS's progression of the NEC Safety Case changes. Given NG NTS's obligations in respect of the UNC, its licence and the GS(M)R, Ofgem would expect NG NTS to ensure that transparent processes are followed in the future when issues which affect the UNC and Safety Cases are considered.

However, while agreeing with the procedural concerns outlined by respondents, in this case Ofgem is supportive of NG NTS having the ability to revise the monitor levels in response to material changes in its projections of supply and demand and so is of the opinion that consistency between the UNC and the NEC Safety Case in this respect should enhance the efficient and economic operation of the system. Ofgem, therefore, considers that, in this case, the consistency provided by modification proposal 050 better facilitates the achievement of relevant objective (a).

#### *Perverse incentives to withdraw gas from store*

Ofgem acknowledges the views raised by respondents that, by providing the ability for NG NTS to increase the monitor levels in response to material changes in its projections of supply and demand, modification proposal 050 may create perverse incentives for storage users to withdraw gas in advance of a GS(M)R Monitor Breach Emergency, thereby increasing the likelihood of an emergency arising.

As mentioned above, Ofgem considers that the potential for these perverse incentives is created by the existing Safety Monitor arrangements. Ofgem recognises that by creating the ability for NG NTS to make upward revisions to the monitor levels, modification proposal 050 could be considered to worsen these perverse incentives, which could increase the likelihood of early withdrawal of gas from storage, thereby operating against the achievement of relevant objective (a). However, Ofgem considers that the principal reason for the existence of any perverse incentives in this respect relates to the current Safety Monitor arrangements themselves rather than the specific issue that modification proposal 050 is seeking to address. Furthermore, Ofgem considers that the potential for perverse incentives to exist under the existing arrangements would be likely to be reduced if affected shippers were to receive an appropriate level of compensation.

*Ofgem's view against relevant objective (a)*

Overall, Ofgem considers that modification proposal 050 would better facilitate the achievement of relevant objective (a).

*Standard Special Condition A 11 (d) – securing of effective competition between the relevant shippers and suppliers*

*Commercial impact*

Ofgem notes the view raised by respondents that modification proposal 050 could have significant commercial impact on market participants due to the possible effect of any variations in the monitor levels on their ability to access gas in store. This commercial impact derives mainly from the uncertainty that a potential or actual revision to the monitor levels could create and the absence of any compensation accruing to storage users who have their flows from storage curtailed. These issues are considered in turn below.

Ofgem acknowledges the potential for modification proposal 050 to create uncertainty in respect of the monitor levels. However, as discussed above, Ofgem considers that it is appropriate for NG NTS to have the discretion to amend the monitor levels to reflect any material changes in its supply and demand projections. Ofgem considers that any uncertainty in this respect can, to some extent, be reduced by ensuring that if NG NTS is seeking to amend the monitor levels it does so in a transparent manner. Therefore, while acknowledging that modification proposal 050 could increase uncertainty, Ofgem considers that NG NTS has the ability to manage this by ensuring that its decisions and expectations concerning the monitor levels are conveyed to market participants in a transparent manner.

Ofgem shares the concerns raised by respondents in relation to the absence of appropriate compensation for storage users who have had their flows from storage curtailed. However, Ofgem considers that this is primarily an issue associated with the Safety Monitor arrangements which exist at present. While Ofgem agrees that the continued lack of compensation for storage curtailment may not promote competition, this is an issue created by absence of an appropriate commercial framework in relation to the Safety Monitor arrangements more generally, rather than modification proposal 050 itself. Therefore, while modification proposal 050 furthers the existing framework, and in doing so may not promote competition, Ofgem considers that the issue relates to the Safety Monitor arrangements more generally.

*Ofgem's view against relevant objective (d)*

Overall, Ofgem considers that by furthering the existing Safety Monitor arrangements, modification proposal 050 may not better facilitate the achievement of relevant objective (d). However, Ofgem considers that these issues relate to the operation of the Safety Monitor arrangements more generally rather than being specific to modification proposal 050.

## *Summary*

On balance, Ofgem considers that modification proposal 050 would better facilitate the achievement of the relevant objectives. In reaching this view Ofgem acknowledges that there is a trade-off between the modification proposal's positive effects in terms of enhanced efficiency and economic operation of the system and any potential negative effects on competition. Ofgem agrees with respondents that the absence of compensation under the Safety Monitor arrangements may not promote competition. However, Ofgem notes that modification proposal 050 focuses on NG NTS's ability to vary the monitor levels, rather than the absence of compensation arrangements under the existing arrangements. Ofgem considers that the benefits of a more dynamic approach to setting the Safety Monitor levels should deliver benefits in terms of the efficient and economic operation of the system which outweigh any potential disadvantages associated with this modification proposal. Furthermore, Ofgem considers that if variations to the monitor levels are undertaken transparently in accordance with a clearly understood methodology, then uncertainty associated with monitor level changes should be mitigated. Ofgem, therefore, considers that it is essential for NG NTS to ensure that it exercises its ability to vary the monitor levels in a transparent manner.

## *Wider statutory duties*

### *Protecting customers*

Overall, Ofgem considers that modification proposal 050 would protect the interests of customers through ensuring that NG NTS, in its role as SO, can revise the monitor levels based on its assessment of supply and demand in order to ensure the safe run down of the system to protect those customers that cannot be protected by isolation.

## *Wider issues*

Ofgem considers that there are several shortcomings in relation to the Safety Monitors arrangements. To overcome these issues, Ofgem considers that the Safety Monitor arrangements would benefit from further consideration by interested parties, with a view to making revisions to these arrangements. The specific issues that Ofgem considers further thought should be given to will be set out in the decision letter for modification proposal 035, to be published in the next few days.

## **Ofgem's decision**

For the reasons outlined above, Ofgem has decided to accept modification proposal 050.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact Simon Bradbury on 020 7901 7249 or Fiona Lewis on 020 7901 7436.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Steve Smith', written over a horizontal line.

**Steve Smith**  
**Managing Director, Markets**