

National Grid NTS Response to Ofgem Impact Assessment Publication of Near Real Time Data at UK Sub-terminals UNC Modification Proposal 006

Summary

National Grid NTS welcomes the continued debate surrounding the provision of market information of which this latest Impact Assessment forms a part.

We continue to support the principle of increasing the availability of gas-related commercial and operational information where clear benefits, which outweigh the costs, can be demonstrated.

We note that the IA makes a case for significant benefits in terms of the publication of terminal flow data. We note that it is largely for market participants to determine what they believe the value of this information is to them in terms of energy trading. To ensure a comprehensive assessment of the proposal, we have set out below some observations with regard to potential costs and commercial risks which we do not believe have been quantified in the IA against the perceived benefits. These relate to the risks of market participants making commercial decisions on potentially misleading data due to the accuracy of two minute flow data and the potential risks upon the upstream parties (and their working relationships with ourselves).

We have experienced a high degree of support, particularly in respect of the industry release of information under the DTI/Ofgem initiative that has served both our requirements and the broader industry information needs. We would hope that additional information releases, such as that proposed in UNC 006, would not jeopardise our healthy working relationships with upstream parties.

We are not aware of any outstanding issues still to be clarified with Ofgem regarding the IT implementation and believe our estimates to be robust based on the information available and the level of resilience the industry usually requires for such data release. Given Ofgem's minded to statement with regard to this proposal we have already committed to implementing a two phase IT project that will seek to ensure that the planned implementation date of October 2006 remains realistic. This project will include an investment in a new web platform specifically designed to publish the terminal flow data at the frequency required and with the levels of performance and resilience demanded by users. During the next few weeks National Grid NTS are intending to publish a document detailing how the proposed IT solution will look to its users should the Authority direct implementation of this proposal.

We set out some more detail on these views below:

Meter Accuracy / Data Quality

National Grid NTS continue to retain concerns previously expressed about the accuracy and reliability of entry meters at the proposed data frequency, and, the robustness of the associated telemetry and data transfer processes to deliver consistent data in respect of accuracy and the timeliness of delivery. We are concerned that this will, on occasions, result in the publication of incorrect information to the market. We are conscious of the impact of within day information on the operation of the market and believe that the risk of further unwarranted volatility in gas prices should be considered in the assessment of this proposal.

In the electricity industry, it is essential that metering equipment is required, by the nature of the market, to accurately record power generation on a minute-by-minute basis, through the day.

This is in contrast to the gas industry, as whilst the metering equipment and associated process to generate information is sufficiently accurate over a 24 hour period to support billing processes, it is not required to record actual flows with such accuracies over the very short time periods contemplated by the proposer. 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.

Clearly since National Grid NTS neither produces or indeed owns the data, we can not accept any liability for any losses incurred as a result of a party taking commercial decisions based upon the data. Indeed any data published as a result of implementation of this proposal would be the subject of a disclaimer on the web site.

Relationship With Upstream Parties

We are also concerned about the effect that implementation of this proposal may have on our working relationships with the upstream industry. We rely upon the provision of information from gas producers and storage operators in order to assist the efficient day-to-day operation of the system. We have further strengthened our relationships with the upstream parties during the DTI/Ofgem information initiative and would not want to prejudice these relationships. In addition the same parties provide information as part of the Transporting Britain's Energy process. Whilst we acknowledge Ofgem's conclusion in paragraph 2.71 that it is highly unlikely that producers would withdraw the information, we are concerned that if the goodwill is not maintained we would not necessarily receive such widespread views and support in completing what are increasingly significant components of the TBE and Winter Outlook Reports. Clearly any disruption to the information flows, as a result of its withdrawal or a contractual dispute, could have a detrimental effect upon the efficient operation of the system.

IT Implementation

We believe, based on experience of the industry's expectations with regard to data provisions, that it is essential that any IT solution is designed to be both robust and fit for purpose. Our current IE3 platform has suffered from

reliability issues partly because it was designed to publish a small amount of low frequency information and has had to be adapted to cope with larger quantities of information much of it updated on an hourly basis. It has very little capacity for further expansion and simply would not cope with reliably publishing two minute flow data. We therefore do not agree with Ofgem's conclusion in paragraph 2.48 that it "seems unlikely that completely new systems would be required" given the industry has always stressed the need for the data to be provided robustly.

We are not aware of any outstanding issues still to be clarified with Ofgem regarding the IT implementation and believe our estimates to be robust based on the information available and the level of resilience the industry usually requires for such data release. We believe that we have co-operated fully with Ofgem in this regard and answered all questions posed as fully as reasonably possible. We have already committed expenditure in order to seek to ensure that the planned October 2006 remains as a realistic implementation target. This includes the commencement of an enhancement to the iGMS system in order to create a data publication hub to extract the near real time data from iGMS and the commencement of the initiation and design phases of the web publication platform project to create a new reliable platform on which to publish the data required by the proposal. It is unusual for us to commit to such IT developments prior to any Authority decision on a proposal. We have commenced this work in following discussions with the Authority and on the basis of Ofgem's "minded to accept" statements. Without such proactive arrangements the envisaged implementation date could not be achieved.

Cost / Benefits analysis

The IA detailed a number of areas where Ofgem believe that the implementation of the proposal will produce a benefit to the industry. These include;

Economic signals

We agree that it is important for market participants to understand the factors relating to the state of offshore supplies in order to make well informed trading decisions. It is difficult for us to comment on the perceived energy trading benefits of the additional information. We have concerns however, for the reasons set out above, that the IA does not acknowledge that the flow information that would be published under this proposal is sourced from the, 3rd party owned, metering equipment at the system entry point(s) and whilst this might provide a signal to the market of offshore problems, it must be recognised that there are a wide range of operational, commercial and technical reasons as to why a supply flow has changed.

Hence whilst there clearly may be benefits in having this information, there may be circumstances where the data is difficult to interpret and indeed we believe there may be circumstances where indications of short term flow

variations might actually generate unwarranted gas price variations with the consequent risk of knock on effects on the forward gas price. We note the IA does not include an allowance for the latter scenario.

System Balancing

The IA assumes that “NG NTS’s role as residual balancer would be reduced as, with increased information, market participants would be better able to balance their positions within the day.” Such an effect, if it was to materialise, would be welcomed by National Grid. For the reasons set out above, we are not sure that this will necessarily be the case and it will be important to assess this post implementation should the Authority direct so.

Market volatility

The IA states the view that the level of market volatility is likely to reduce, particularly as participants learn to better interpret the data published, as a result of the proposal. Whilst this may be the case, the counterview should also be considered, i.e. the risk that the implementation of this particular Proposal will lead to increased volatility that is caused not by supply-demand fundamentals but rather by issues including the operational envelope of metering equipment and, the timing and accuracy of the underlying systems and processes that source the flow information.

Conclusion

Should the industry/market require the information, and it be considered appropriate, we will facilitate its timely communication as defined in the proposal.

We would however advocate a balanced assessment of this proposal particularly in the context of;

- The usefulness of information at such a low level of granularity
- The risks of unwarranted volatility of gas prices that might result from short term flow rate variations that might arise from a wide range of operational, commercial or technical issues which might be unrelated to end of day flows
- The risks that publication of upstream information might prove disruptive to the objective of getting high quality, informed insights from upstream parties to support TBE and the Winter Outlook Report.