Promoting choice and value for all gas and electricity customers

Potential new System Operator quality of information incentive schemes for National Grid Gas

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Target audience: National Grid Gas NTS, gas shippers and suppliers, customers and any other interested parties.

Overview:

Providing reliable and accurate information to the gas market will be important this winter given National Grid Gas' (NGG) assessment that supplies this winter may be tight. NGG as system operator (SO) provides forecasts of gas demand and key operational data on the gas market on its website. Last winter, there were concerns about the accuracy of NGG's gas demand forecasting data and the performance of its website. In response to these concerns, we proposed new financial incentives designed to improve NGG's performance in these areas. The majority of respondents supported our proposals. This document sets out our Final Proposals for these schemes and includes a statutory consultation on licence changes necessary to implement them. These proposals will help to improve the accuracy and reliability of the information NGG provides this winter.

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Context

National Grid Gas plc (NGG) is the system operator (SO) and transmission asset owner (TO) for the gas transmission system in Great Britain (GB), by virtue of holding the gas transporter licence in respect of the National Transmission System (NTS). In the context of this role, NGG publishes a range of operational data relevant to the gas market on its website on an ongoing basis that is used by market participants to inform commercial decisions. Ahead of winter 2006/07, we consider customers will benefit from improvements in the accuracy of gas demand forecasting data provided by NGG, and the performance of NGG's website.

To encourage NGG to deliver these improvements ahead of what the market is predicting may be a difficult winter, we propose implementing two new SO incentive schemes, applying to the period 1 October 2006 to 1 April 2007. This document sets out our Final Proposals for these schemes, following an initial consultation published in May 2006. If NGG agrees to our proposals, they will be implemented with effect from 1 October 2006.

Associated Documents

- Ofgem Initial Proposals: Potential new System Operator quality of information incentive schemes for National Grid Gas

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15171_New_SO_incentive_FINAL.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/wholesalemarketmonitoring

- Ofgem presentation to Demand Side Working Group: Gas demand forecasting and website performance incentives

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15492_2006-06-20_DSWG_incentives_vFINAL.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/wholesalemarketmonitoring/wholesalemarketmonitoring01

- Ofgem presentation: Looking ahead to Winter 2006, Winter Outlook Consultation 06/07

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15124_1_OFGEM_WOC_slides_final_no_notes.pdf?wtfrom=/ofgem/work/index.jsp&section=/areasofwork/wholesalemarketmonitoring

Table of Contents

Summary

In winter 2005/06, National Grid Gas plc's (NGG's) performance, both in terms of the accuracy of its gas demand forecasts and the performance of its website in delivering critical operational data relevant to the gas market, received criticism from certain market participants. Feedback from market participants (supported by our own analysis) suggests that improvements in the quality of service provided by NGG in both areas may deliver significant benefits to customers.

Looking forward, market indicators suggest that winter 2006/07 may be even more difficult than winter 2005/06 (with gas forward prices in the UK for January 2007 reaching levels exceeding those quoted on any other international market). In May 2006, we published Initial Proposals for two new incentive schemes designed to give NGG a commercial incentive to improve the accuracy of its gas demand forecasts and the performance of its website. Responses to this document were received by 23 June 2006.

Following careful review of these responses, we have prepared Final Proposals for these new incentives. This document outlines these proposals in full, and includes a statutory consultation on the licence changes necessary for their implementation.

Background

NGG publishes a wide range of operational data relevant to the gas market on its website. Feedback received from market participants suggests that the most important sources of data are gas demand forecasts, actual and nominated NTS flows and linepack. Our analysis suggests that customers may benefit significantly from improvements in both the accuracy of NGG's gas demand forecasts and the performance of its website.

We therefore developed Initial Proposals for two new SO incentive schemes, designed to give NGG stronger commercial incentives to improve the quality of service in the areas of gas demand forecasting and website reliability and performance.

Respondents' views

There were nine responses to our Initial Proposals consultation document. A majority of respondents were in favour of the proposed incentives, with seven respondents supporting the demand forecasting incentive and six respondents supporting the website performance incentive. A summary of these responses, including Ofgem's views are included in Appendix 2, and a list of all respondents is included in Appendix 3.

Final Proposals

In light of responses (including that of NGG) received to the Initial Proposals consultation, we propose the following incentive parameters for the two new SO incentive schemes.

	Improvement on winter 2005/06 performance			
	-5% (Collar)	*0% (Benchmark)*	*5% (Target)*	*100% (Cap)*
Demand forecasting accuracy incentive	-£1.6m	£0m	£1.6m	£9.2m

	Improvement on winter 2005/06 performance		
	0% (Benchmark and collar)	*27% (Target)*	*100% (Cap)*
Website performance incentive	£0m	£1m	£1.5m

We consider the proposed form of demand forecasting accuracy incentive (consistent with the "Option 2" incentive form described in our Initial Proposals) will place an appropriate incentive on NGG to deliver improvements in short term gas demand forecasting accuracy in time for winter 2006/07.

As improvements in website performance are required in time for this winter, and in light of the potential benefits to customers from improvements in website performance, we are recommending NGG's favoured Option 1 form in our Final Proposals for the website performance incentive.

We propose that these incentive schemes apply from 1 October 2006 to 1 April 2007. We will continue to assess the most appropriate form for any ongoing quality of service incentives in these areas. This review will be undertaken in the context of the wider review of gas and electricity SO incentives[1]. In developing the incentives we will consider whether in future the website performance incentive should be symmetrical with penalties for poor performance as well as payments for improved performance.

Next steps

If NGG consents to our proposals, these two new SO incentive schemes will become be effective on and from 1 October 2006.

[1] http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15627_Open_letter_on_NGET_historical_performance_v2.pdf?wtfrom=/ofgem/index.jsp

1. Introduction

Chapter Summary

This chapter outlines the process we have followed in developing Final Proposals for the two new SO incentive schemes. These have been designed to give NGG an incentive to improve the quality of its gas demand forecasts and the performance of its website (used by NGG to deliver gas market operational data to market participants). This chapter also outlines the structure of the document and next steps.

Question

Question 1: do you have any views on the scope and form of any enduring arrangements that may be required to promote NGG's quality of service with regard to gas demand forecasting accuracy and website performance from April 2007?

Introduction

1.1. National Grid Gas plc (NGG) is the system operator (SO) for the gas transmission system in Great Britain (GB), by virtue of holding the gas transporter licence in respect of the National Transmission System (NTS)[2]. NGG has obligations in its licence to operate the NTS in an efficient, economic and co-ordinated manner[3].

1.2. To ensure that the interests of customers are protected, NGG's business is regulated. A key aspect of this regulation focuses on the level of revenue NGG is allowed to recover from customers through periodic price controls (most commonly known as 'RPI-X' regulation). This regulatory framework has been very successful in encouraging efficiency, for example reducing gas transportation charges in real terms by 41% since 1994[4].

1.3. The RPI-X regulatory framework is effective at delivering benefits to customers through reductions in cost. However, it can mean that in some instances the quality of service offered by businesses regulated under this approach may be lower than customers would like. An example of this is over winter 2005/06, when the accuracy

[2] Within this document, unless otherwise stated, NGG refers to National Grid Gas plc in its capacity as the holder of a gas transporter licence in respect of the National Transmission System.
[3] Special Condition C5 of the gas transporter licence.
[4] "Our Energy Challenge: Ofgem's response", Ofgem, May 2006

of NGG's gas demand forecasts, and the performance of NGG's website were criticised by a number of market participants.

1.4. As described in our Initial Proposals consultation[5], some market participants (predominantly large industrial and commercial gas users) have indicated to us that the gas demand forecasts and other key gas market operational data published on NGG's website are of commercial importance to them. On the basis of these comments and detailed analysis presented in the context of our Initial Proposals, we believe that improvements in the accuracy of NGG's gas demand forecasts and in the performance of its website may deliver significant benefits to large customers, the wider market and ultimately to all consumers.

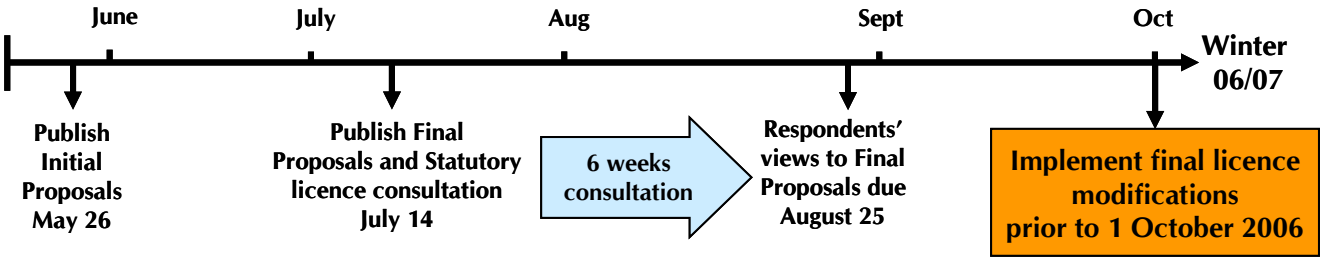
1.5. This is particularly the case looking forward to winter 2006/07. Market indicators suggest that this coming winter may be even more difficult than winter 2005/06 (with gas forward prices for January 2007 reaching levels higher than any other international market). As a consequence, we consider that the quality of gas market information provided by NGG may be of even greater importance to market participants in winter 2006/07 than was the case in winter 2005/06.

1.6. We are therefore presenting Final Proposals for two new SO incentive schemes, specifically designed to encourage quality of service improvements in NGG's gas demand forecasting accuracy and in the performance of NGG's website.

1.7. Consistent with our Initial Proposals, we do not consider that the incentives proposed in this document represent an enduring approach to delivering improvements in NGG's quality of service. Instead, we propose reviewing these incentives before April 2007.

Process for setting these incentive schemes

1.8. The process we are following in developing these incentives is set out below:



[5] Potential new system operator quality of information incentive schemes for National Grid Gas, May 2006, Ofgem, 88/06. This can be found at: http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/15171_New_SO_incentive_FINAL.pdf

1.9. In order to deliver improvements in time for winter 2006/07, we think that these incentive schemes will need to be implemented before the end of September 2006. This will allow NGG sufficient time to both plan and implement projects designed to improve the quality of the service that it provides in both areas.

1.10. The Final Proposals presented in this document are informed following detailed consideration of responses to our Initial Proposals consultation, which were received by 23 June 2006.

Structure and approach

1.11. Chapter 2 of this document provides a short overview of the scope of demand forecasts provided by NGG, the breadth of gas market operational data published on NGG's website and an overview of NGG's recent performance in both of these areas. The chapter also summarises analysis presented in our Initial Proposals on the potential extent of benefits to customers of improvements in the accuracy of NGG's demand forecasts and the performance of its website.

1.12. Chapter 3 describes our Final Proposals for the two new SO incentives, and Appendix 4 provides a statutory notice containing revised licence conditions reflecting our proposed changes.

Way forward

1.13. As noted above, Appendix 4 of this document contains a statutory notice of our intention to modify by agreement NGG's gas transporter licence in respect of the National Transmission System (NTS), under section 23(3) of the Gas Act 1986. If implemented, these modifications will allow the proposals set out in this document to take effect.

1.14. We welcome the views of interested parties regarding all aspects of our proposed modifications. Responses should be sent to whoesale.markets@ofgem.gov.uk, to be received no later than 25 August 2006. Details of how to respond can be found in Appendix 1[6].

1.15. We also invite views from respondents on the scope and form of any enduring arrangements that may be required in these areas beyond the end of March 2007 (after which the incentive schemes proposed in this document will terminate).

1.16. The statutory notice under section 23(3) of the Gas Act 1986 specifies a period of not less than 28 days during which interested parties can make representations or

[6] Appendix 10 provides details of how to give feedback to us on the manner in which this consultation has been conducted.

objections to the proposed licence modification, following which revisions to the proposed licence modification will be made if they are considered appropriate (except where the Secretary of State directs Ofgem not to make the modifications).

1.17. NGG must consent to the proposed licence modifications before they can be implemented. If NGG consents, Ofgem intends, subject to any representations made during the consultation and any direction received from the Secretary of State, to direct the relevant modification of NGG's gas transporter licence in line with the proposed licence modifications shortly after 31 August. The new licence conditions will apply on and from 1 October 2006.

2. Background to proposed incentive schemes

Chapter Summary

This chapter provides an overview of the background to the development of these incentives. It includes an overview of NGG's recent performance regarding the quality of its gas demand forecasts and the delivery of gas market operational data through NGG's website. This chapter also summarises analysis we have undertaken to illustrate the potential benefits to customers of improvements in both the accuracy of NGG's gas demand forecasts and the performance of its website.

Question

There are no specific questions in this chapter

Introduction

2.1. This chapter builds on chapters 2 and 3 of our Initial Proposals consultation document, and summarises:

- services provided by NGG,
- NGG's recent quality of service delivery, and
- need for improvement ahead of winter 2006/07.

Services provided by NGG

2.2. The Uniform Network Code ("UNC") requires NGG as gas SO to undertake a wide range of functions and roles. In the context of this role, NGG provides a range of services to market participants regarding both:

- short-term gas demand forecasting, and
- delivery of gas market operational data through its website.

Gas demand forecasting

2.3. NGG publishes a number of demand forecasts for each 'gas day'[7]. Consistent with obligations placed on the SO under the UNC, the first of these demand forecasts

[7] A 'gas day' is from 06:00 to 06:00 on the following calendar day.

is delivered by NGG before 14:00 on the day immediately prior to the gas day[8]. These demand forecasts are also published on NGG's website[9].

Website delivery

2.4. NGG's website provides a range of data regarding the operation of the gas market and including data on prices, shrinkage, flows into the NTS, linepack and forecast gas demand[10]. The majority of this data is also provided to shippers via the Gemini system. As a consequence, it is those market participants who do not have access to Gemini (e.g. large industrial customers) that value the data published on NGG's website most highly.

NGG's recent quality of service delivery

2.5. In winter 2005/06, the quality of both NGG's gas demand forecasting accuracy, and website performance was criticised by certain market participants. Some stated that this level of performance resulted in significant costs to their business.

2.6. Ofgem undertook analysis of NGG's recent performance in the context of developing Initial Proposals for the demand forecasting accuracy and website performance incentives[11]. This analysis examined:

- the accuracy of NGG's day-ahead gas demand forecasting accuracy in 2005/06, and
- the performance of NGG's website.

Daily gas demand forecasting

2.7. NGG's gas demand forecasting accuracy over winter 2005/06 was measured by summing NGG's total day ahead (14:00) winter forecasting error and expressing this as a percentage of total actual (outturn) demand for the winter (reported at D+5). This error was 3.6 per cent, equating to an average volume of 11.2mcm per day. The 3.6 per cent average error masked swings in the day ahead forecast from a 55mcm over-forecast (18.3 per cent error) to a 38mcm under-forecast (10.8 percent error)[12].

[8] Part 5, Section H of the Transportation Principal Document (TPD) of the UNC.
[9] http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/SIS03.htm
[10] A summary of the information currently provided on NGG's website and the frequency with which it is updated is summarised in Appendix 3 of the Initial Proposals consultation document.
[11] See Chapter 2 of the Initial Proposals consultation.
[12] On 31 December 2005 and 17 December 2005 respectively.

2.8. Analysis also uncovered evidence of consistent over-forecasting on 'tight days' (i.e. when the margin between forecast demand and supply is relatively small), particularly during February and March 2006. NGG indicated the key reason for this was the over-estimation of the level of gas demand by large users (i.e. an under-estimation of the level of demand side response).

Website performance

2.9. The performance of NGG's website was assessed via a number of methods, including an analysis of complaints received by Ofgem during Winter 05/06, reference to an independent study comparing NGG's website to other FTSE 100 companies, and analysis provided by NGG on the performance of its own website.

2.10. The data provided by NGG from November 2005 to March 2006 indicated an availability of the web page containing NTS flow data based on physical nominations (NTSAPF) of 99.86 per cent[13]. Given the data was collected by a third party and that information regarding the performance of other critical operational gas data was not available, we consider this to be the most useful indicator of the availability of gas market operational data on NGG's website over winter 2005/06.

2.11. The analysis of timeliness of data posted on the NGG website over winter 2005/06 focused on four key categories of data[14]. The data provided by NGG on the timely updating of these data fields over winter 2005/06, reported in our Initial Proposals consultation document, have been revised by NGG following a detailed audit. Both the updated data and original data supplied by NGG are reported in Table 1 below[15]:

[13] Note that this is a correction from the performance level quoted in our Initial Proposals consultation. NGG has stated that this difference results from a miscalculation in the amount of downtime of the website in March 2006.
[14] These were linepack data (NB92), Physical flows onto the NTS (NTSAPF), Nominated flows into the NTS (NTSAFF), and forecast demand (SISR03). These were selected on the basis of feedback received from Demand Side Working Group (DSWG) attendees following a meeting on 20 April 2006.
[15] Data on timeliness originally presented on page 14 of the Initial Proposals consultation are presented in italics in Table 1.

Table 1: Timeliness benchmark data

Timeliness benchmark data : October 2005 – March 2006			
Report	**Frequency**	**% delivered within 20 minutes of real time**	
		Original data	**Revised data**
NTSAFF	Hourly	*46%*	**40%**
NTSAPF		*38%*	**46%**
NB92		*29%*	**25%**
Report	**Frequency**	**% delivered on time**	
		Original data	**Revised data**
SISR03	Day ahead: 14:00, 02:00 Within day: 12:00, 15:00, 18:00, 21:30	*64%*	**95%**

2.12. The most significant of the changes outlined above is in the improvement in the timely reporting of the forecast demand (SISR03) field from 64% to 95%. NGG has stated that this correction arose from a one-off problem relating to the handling of Greenwich Mean Time and British Summer Time by the relevant systems (now resolved). NGG has confirmed that the data presented above are now final, and relate to performance on a 24 hour a day/7 day a week basis, over the stated period.

2.13. NGG's revised data shows that, for the reports relating to linepack and physical/nominated NTS flows, between 25% and 46% of reports were delivered within 20 minutes of real time. For the forecast demand report, the analysis shows that delivery occurred at the specified publication times on 95% of occasions over winter 2005/06.

Need for improvement

2.14. In chapter 3 of the Initial Proposals consultation, we presented detailed analysis regarding the potential benefits to customers that we considered may result from improvements in NGG's gas demand forecasts, and the performance of NGG's website. We summarise the key findings of this analysis below.

Gas demand forecasting accuracy

2.15. We stated that there were two key benefits to customers from improvements to NGG's demand forecasts, these being potential reductions in gas price distortions and potential improvements in the efficiency of system operator (SO) balancing actions.

2.16. Using 'merit order' analysis, to rank sources of gas supply in order of cost, we showed that errors in gas demand forecasts had the potential to distort the prices at which market participants contract for gas by approximately 8p/therm. As an upper bound, we estimated this could equate to a potential cost to customers on a 'tight

day' of up to £10.6m per day. We concluded that even marginal improvements in the accuracy of NGG's demand forecast could produce large benefits to customers.

2.17. We also stated that improvements in gas demand forecasts may enhance the efficiency of SO balancing actions. As the SO currently uses its own gas demand forecasts as a tool to inform expectations of the demand/supply balance, any error in the forecast may potentially lead to inappropriate balancing actions by the SO.

Website performance

2.18. We stated in the Initial Proposals document that the key benefit of improved website performance was ensuring that all market participants receive commercially critical information at the same time - in essence creating more of a "level playing field" for information access. We considered this to be particularly important in the context of a potentially difficult forthcoming winter (given that a better informed market will be better placed to respond to difficult circumstances).

2.19. We also stated that a further benefit from improvements in NGG's website performance would be potential improvements in the efficiency of trading decisions by those market participants that rely on NGG's website for the provision of gas market operational data. We calculated that the potential cost to large customers of poor performance of NGG's website from inefficiencies introduced to trading decisions may have been around £1.8m over winter 2005/06.

3. Ofgem's Final Proposals

Chapter Summary

This chapter summarises our Final Proposals for two new SO incentives, relating to demand forecasting accuracy and website performance.

Question

Question 1: do you agree that the proposed licence modifications appropriately reflect the Final Proposals explained in this chapter?

Introduction

3.1. This chapter presents our Final Proposals for two new SO incentives designed to improve the quality of NGG's gas demand forecasts and website performance. We highlight the key areas where these proposals differ from our Initial Proposals, outlining the reasons for the changes made.

3.2. Note that a summary of responses received to our Initial Proposals, and our views on each issue are provided in Appendix 2. A list of all respondents to our Initial Proposals consultation is provided in Appendix 3, and all responses can be found in full on the Ofgem website[16].

Gas demand forecasting accuracy

3.3. We outline our Final Proposals for the accuracy of gas demand forecasting incentive in terms of:

- scope
- form, and
- duration

Scope

3.4. We propose that the gas demand forecasting incentive is focused on improving the accuracy of the system (NTS throughput) gas demand forecast, published before

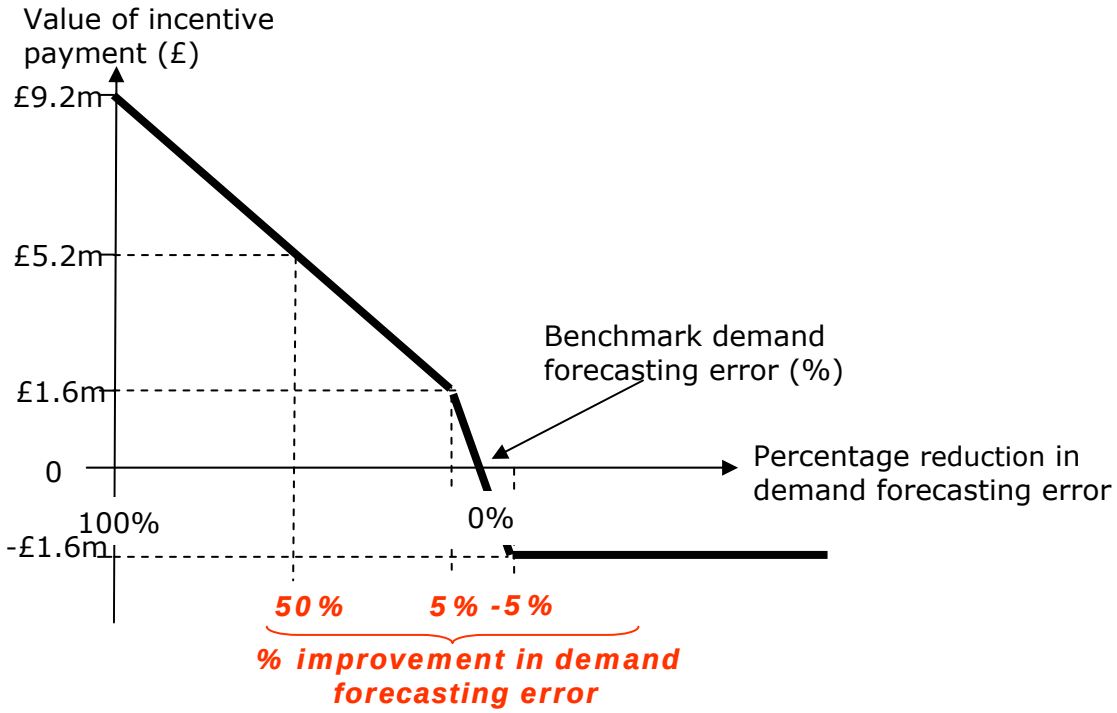
16 http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/wholesalemarketmonitoring&levelids=,1_14169#top14169

14.00 hours at day-ahead (relative to outturn demand reported at D+5). On grounds of simplicity and transparency, we also propose that gas demand forecasting accuracy on each day over the duration of the incentive is treated equally (i.e. no periods are given more weight in terms of potential incentive payments on offer than other periods).

Form

3.5. Our final proposal for the form of the demand forecasting accuracy incentive is illustrated in Figure 1 below:

Figure 1 Demand forecasting accuracy incentive



3.6. We consider this proposal, consistent with the "Option 2" form of incentive, defined in the Initial Proposals consultation document, will present a sharper incentive on NGG to deliver improvements in short term gas demand forecasting accuracy compared to the "Option 1" form. We also consider that this form of incentive represents a more equal allocation of risk between NGG and customers and is appropriate for this winter.

3.7. NGG did not state a preference for this option in its response to the Initial Proposals consultation. However, NGG has subsequently indicated that it would accept Option 2 for the demand forecasting accuracy incentive, on the basis that it is willing to accept the potential downside risk implicit in this option in return for the

potential to earn relatively higher upside incentive payments than those available under Option 1.

3.8. Consistent with our Initial Proposals, we propose that the benchmark level of demand forecasting error for the duration of the incentive is set at 3.6% (i.e. the daily error in the 14.00 day-ahead demand forecast compared to actual NTS throughput calculated at D+5).

3.9. As an example, under these proposals a 5% improvement in NGG's gas demand forecasting accuracy over winter 2006/07 (i.e. from a forecasting error of 3.6% to 3.4%) would trigger an incentive payment to NGG of £1.6m. However, a 5% reduction in gas demand forecasting accuracy over the same period would mean NGG would be required to pay £1.6m under this incentive.

Duration

3.10. Consistent with our Initial Proposals consultation, we propose that this incentive applies from 1 October 2006 to 1 April 2007 (primarily because the incentive parameters outlined above have been specifically designed to deliver performance improvements in time for this winter). This incentive will be reviewed prior to April 2007, with arrangements then being implemented that are more appropriate to the promotion of enduring improvements in gas demand forecasting accuracy.

Recovery of incentive cost

3.11. This incentive relates to improvements in the general performance of the SO (rather than specifically relating, for example, to system balancing). For this reason, we consider it appropriate for any costs of this incentive to be recovered through the SO commodity charge (with any net gain from the incentive being redistributed via the same route). NGG will be responsible for progressing any changes that are required in the calculation of the SO commodity charge as a consequence of these proposals.

Website performance

3.12. Once again, we outline our Final Proposals for the website performance incentive in terms of:

- scope
- form, and
- duration

Scope

3.13. We propose that the website performance incentive should focus on improving the performance of those data fields that are of most value to customers. As outlined in our Initial Proposals consultation, key data include linepack, physical and nominated NTS flows and forecast demand, all of which are reported on NGG's Daily Summary Report webpage[17].

3.14. We propose that the scheme provides NGG with a commercial incentive to improve two aspects of website performance. These are:

- the **availability** of the data fields customers value most highly (i.e. reduce the amount of downtime of the relevant web pages), and
- the **timeliness** of the updating of these data.

3.15. We consider that these two measures are complementary (in that a failure of the website would lead to underperformance against both of these measures), yet that both of these measures define distinct aspects of the service delivered by NGG that are valued by industry participants.

Availability

3.16. Consistent with our Initial Proposals, we consider it appropriate to base the availability component of the incentive on the availability of key data published on NGG's website.

3.17. Subsequent to the publication of the Initial Proposals consultation, NGG has stated that the availability benchmark data collected over winter 2005/06 for data field NTSAPF would not be a suitable proxy for the availability of the specific "Daily Summary Report" page on its website. This is because the composition of this page (in terms of graphical content) is significantly more complex than the NTSAPF page for which availability benchmark data was collected. However, NGG has agreed that the composition of the web pages specifically devoted to key data outlined above (i.e. linepack data, physical and nominated NTS flows, and forecast demand data) are consistent with the NTSAPF page[18].

3.18. As a consequence we propose that the availability performance measure over winter 2006/07 is calculated as being the average availability of these four web

[17] http://www.nationalgrid.com/uk/Gas/Data/dsr/

[18] The web pages devoted to the delivery of these specific data fields are: http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/SIS03.htm (SISR03), http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/NTSAFF.htm (NTSAFF), http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/NTSAPF.htm (NTSAPF), and http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/NB92.htm (NB92).

pages over this period. We will therefore require NGG to monitor the availability of these pages using the same methodology as that applied last winter to the monitoring of the NTSAPF page[19]. This monitoring will be undertaken using an independent third party specialist website monitoring company, and be done on a continuous basis for the duration of the incentive. We consider this should provide an accurate (and auditable) measure of availability. In addition, we will require NGG to monitor the availability of the Daily Summary Report over winter 2006/07, for potential use in any arrangements designed to deliver enduring quality of service improvements to NGG's website performance.

3.19. Finally (and for consistency with the demand forecasting accuracy incentive), we propose that NGG's performance across the duration of the incentive period is weighted equally across all time periods.

Timeliness

3.20. As outlined in our Initial Proposals, we propose that the timeliness performance measure is based on the average timeliness of the posting of linepack data, physical and nominated NTS flows and forecast demand data on NGG's website. We propose that timeliness is measured as an average of the percentage of occasions these data are posted within 20 minutes of real time (for the three data reports updated hourly), and the percentage of occasions demand forecasts are published by their stated publication times (for data reports with specified publication times).

Overall website performance

3.21. We propose that overall website performance is measured as being the average of the percentage improvement in availability (i.e. percentage reduction in downtime) and percentage improvement in timeliness over winter 2006/07, compared to winter 2005/06.

3.22. In a change from the Initial Proposals, we propose placing a collar on the contribution of each of the availability and timeliness elements of the incentive on the performance measure. This is in response to NGG's concern that poor performance on the availability incentive (e.g. following a single large outage) may remove the incentive to outperform the timeliness benchmark across the winter period. We consider that this approach is more appropriate than, for example, NGG's favoured approach of setting a daily or monthly availability target (as we consider this approach may blunt the incentive to respond to incidents on individual days).

3.23. As outlined in Chapter 2, NGG has identified a small number of errors that mean changes to the performance benchmarks outlined in Appendix 5 of our Initial

[19] Details of this methodology may be found in Appendix 6.

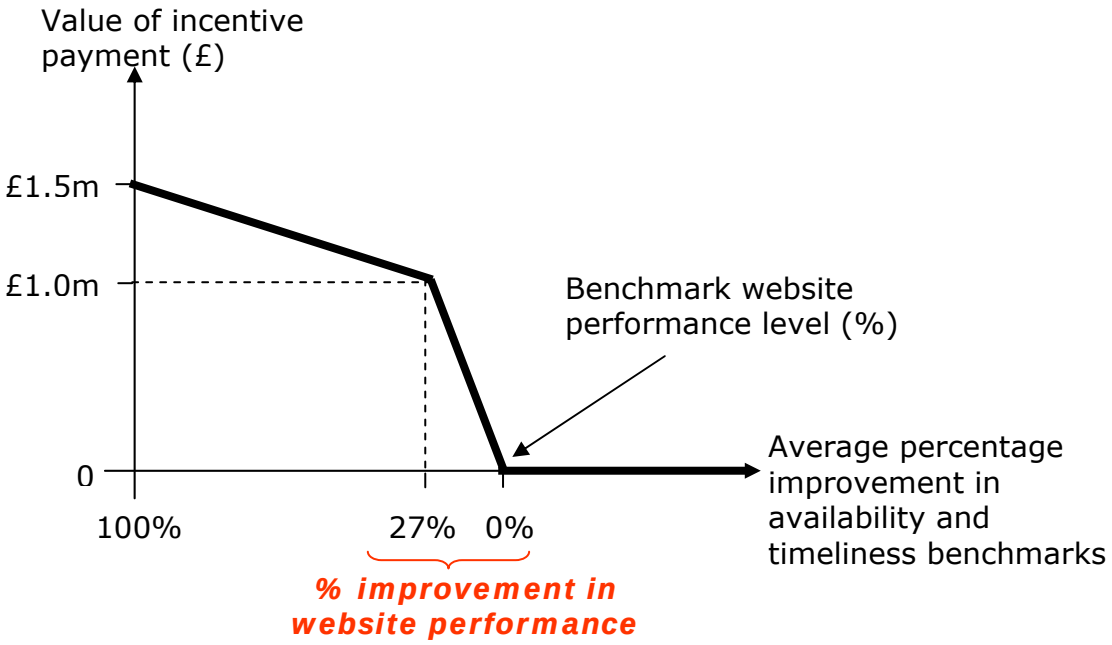
Proposals consultation are required. Allowing for these revisions means that the timeliness benchmark in the Final Proposals is set at the higher level of 51.5% (compared to Initial Proposals of 44.25%). More details on the calculation of both the benchmark and website performance measure may be found in Appendix 5.

3.24. Finally, we also consider it appropriate for force majeure events that result in the unavailability of NGG's website to be excluded from the calculation of the performance measure. Note, however that any such exclusions will be at the discretion of the Authority[20].

Form

Our final proposal for the form of the website performance incentive is illustrated in Figure 2 below:

Figure 2 Website performance incentive



3.25. As an example, under these proposals a 27% improvement in the website performance measure would trigger an incentive payment to NGG of £1m. However,

[20] See Appendix 7 for further details of the definition of force majeure in this context.

a reduction in website performance below the benchmark level would mean no cost to NGG[21].

3.26. As outlined above in the context of the demand forecasting accuracy incentive, we consider that symmetrical incentive forms (such as the Option 2 proposals for both schemes as outlined in our Initial Proposals) are generally the most appropriate for use in incentive schemes. However, in the exceptional circumstances of requiring improvements in website performance in time for this winter, and in light of the potential benefits to customers from improvements in website performance, we are prepared to adopt NGG's favoured incentive form in our Final Proposals for this incentive for this winter. In doing so, however, we reiterate that we do not consider an incentive such as this would be appropriate for continuation beyond this winter, and that the form of this incentive will therefore be reviewed ahead of April 2007.

Duration

3.27. Consistent with the demand forecasting accuracy incentive, we propose that this incentive applies from 1 October 2006 to 1 April 2007. This incentive will therefore be reviewed prior to April 2007, with arrangements then being implemented that are more appropriate to the promotion of enduring improvements in website performance.

Recovery of incentive cost

3.28. This incentive relates to improvements in the general performance of the SO (rather than specifically relating, for example, to system balancing). For this reason, we consider it appropriate for any costs of this incentive to be recovered through the SO commodity charge (with any net gain from the incentive being redistributed via the same route). Again, NGG will be responsible for progressing any changes that are required in the calculation of the SO commodity charge as a consequence of these proposals.

Next steps

3.29. In order to amend NGG's gas transporter licence to take account of the proposed changes to the SO incentive scheme associated with the proposals in this document, a statutory notice of the licence modification under section 23(3) of the Gas Act 1986 is required. This statutory notice is contained within Appendix 4.

3.30. A statutory notice under section 23(3) of the Gas Act 1986 specifies a period of not less than 28 days during which interested parties can make representations or objections to the proposed licence modification, following which revisions to the

[21] Although we note that NGG would still bear the full cost of any initiatives it undertook to improve performance in response to this incentive.

proposed licence modification will be made if they are considered appropriate, except where the Secretary of State directs Ofgem not to make the modifications.

3.31. NGG must consent to the proposed licence modifications before they can be implemented. If NGG consents, Ofgem intends, subject to any representations made during the consultation and any direction received from the Secretary of State, to direct the relevant modification of NGG's gas transporter licence in line with the proposed licence modifications shortly after 31 August. The new licence conditions will apply on and from 1 October 2006.

3.32. We also consider it important to note that the obligation to operate an efficient and economic transportation system will underpin the new incentives[22]. This will provide a safeguard to ensure that NGG operates its system economically and efficiently at all times.

[22] Special Condition C5 of the gas transporter licence.

Appendices

Index

Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions outlined in Chapters 1 and 3:

CHAPTER: One

Question 1: do you have any views on the scope and form of any enduring arrangements that may be required to promote NGG's quality of service with regard to gas demand forecasting accuracy and website performance from April 2007?

CHAPTER: Three

Question 1: do you agree that the proposed licence modifications appropriately reflect the Final Proposals explained in this chapter?

1.3. Responses should be received by **25 August 2006** and should be sent to:

Sonia Brown
Director, Wholesale Markets
Ofgem
9 Millbank
London
SW1P 3GE

wholesale.markets@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website (www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Any questions on this document should, in the first instance, be directed to:

Simon Bradbury
Wholesale Markets
Ofgem
9 Millbank
London
SW1P 3GE

020 7901 7249

Simon.Bradbury@ofgem.gov.uk

Appendix 2 - Responses to Initial Proposals consultation

Introduction

1.1. The deadline for responses to the Initial Proposals consultation was 23 June 2006. This appendix summarises the responses received to the questions posed in this document, and presents Ofgem's views on each issue.

Responses to Chapter 3 - Benefits to customers of improvements in quality of information provided by NGG

Introduction

1.2. In Chapter 3 of the Initial Proposals consultation we illustrated the potential benefits to customers of improvements in both the accuracy of NGG's gas demand forecasts and the performance of its website. Eight parties commented on the issues raised in this chapter. We invited views on the following specific questions (and invited comments on any other issues that parties wished to raise under this heading):

- **Do you agree that the scope of potential benefits from improved quality of information is correct?**
- **Do you agree that the potential benefits from improvements in demand forecasting accuracy are quantified appropriately?**
- **Do you agree that the benefits from potential improvements in website performance are quantified appropriately?**

Views of gas transporter Licensee

1.3. There were no specific comments by NGG on the issues raised in this chapter.

Views of customer representatives

1.4. Both customer representatives that responded to the consultation commented on the issues raised in Chapter 3.

1.5. One supported Ofgem's proposals and analysis and stated that many industry participants rely on NGG for demand forecasts as this is a vital tool for those that can't develop their own forecasts. It added that the NGG website is the unique source for certain critical information and that inaccurate or unavailable information

can have a detrimental impact on customers' operations. This respondent also stated that a key aim going forward should be for information to be delivered to the whole market at the same time. It also stated it had identified 35 website performance issues that it considered may equate to a potential £63 million cost to customers.

1.6. The other customer representative stated that it agreed that improvements in the timely delivery of accurate information would deliver significant benefits to customers.

Views of other industry participants

1.7. Six other respondents commented on the issues raised in Chapter 3:

- Five of these respondents agreed that the scope and quantification of the benefits of the demand forecasting incentive schemes was appropriate, with three other network users supporting the benefits outlined for the website performance incentive. Three respondents noted the importance of accurate and timely information and two noted that there are high costs in relation to balancing difficulties caused by forecast errors. These respondents noted that a reduction in gas demand forecasting error would result in greater market stability and would reduce volatility. Another respondent noted the importance of all parties gaining access to information at the same time, describing this as being essential to avoid market distortions.

- There were opposing views regarding the maximum cost per day of gas demand over-forecasting (estimated at up to £10.6 million per day on "tight" days). One respondent considered the total cost could potentially be higher (on the basis that this could be incurred on multiple days), whilst another felt this figure was overstated.

- Two respondents considered the benefits of potential improvements in website performance were overstated. In particular, these respondents asked for more clarity surrounding how improving availability above 99% would allow for better informed decisions and the resulting benefits. One respondent queried why a £600k investment was required and whether the cost of 0.11% downtime justified this.

Ofgem's views

1.8. We would like to make the following observations in the light of the points raised by respondents in response to Chapter 3:

- We welcome the views of those respondents that considered the scope of benefits from improvements in demand forecasting accuracy and NGG's website performance identified in the Initial Proposals consultation was appropriate.

- We agree with the respondent that stated all market participants should gain access to market operational data on an equal basis, and that market distortions may result where this is not the case. As a consequence, we also agree that an objective of any ongoing initiatives in this area should be to deliver a "level playing field" in terms of the delivery of operational market data to market participants.

- We appreciate comments from a number of respondents who stated that the quantification of benefits from improvements in the quality and availability of information is challenging. However, we also welcome the view expressed by the majority of respondents that the methodology used to quantify these benefits was appropriate.

- In response to the two respondents that commented on the maximum cost per day of inaccuracies in NGG's gas demand forecasts, we would reiterate that the estimate of £10.6million was intended to illustrate the maximum potential cost to customers per day, on "tight" days (i.e. when the margin between forecast demand and available sources of supply is small). One respondent considered this to be an over-estimate on the basis that the estimated 8p/therm distortion should only apply to marginal volumes of gas. In response, we would like to highlight the view of one respondent who stated that they considered the methodology applied in the Initial Proposals consultation to be reasonable, on the basis that more gas purchase contracts are now indexed to prompt prices than has historically been the case[23].

- We note the view of one respondent who questioned what benefits would accrue by improving website performance beyond current performance levels of over 98%. In response to this, we would highlight that although website downtime over winter 05/06 was quantified as being around 5 hours, most problems with availability arose at times of high website usage and gas system stress (i.e. the times at which the data provided by the website was likely to be of most value to users). As a consequence, we continue to consider reductions in downtime would be likely to deliver significant benefits to users of NGG's website. We would also reiterate that the analysis of the benefits included in the Initial Proposals document, focused primarily on availability, and that the timely provision of data is also an issue of key importance to users of NGG's website. We therefore continue to believe that improvements in website performance and consequential reductions in potential market distortions are likely to deliver significant benefits to customers.

[23] See response from Association of Electricity Producers, on the Ofgem website.

Responses to Chapter 4 - Ofgem's Initial Proposals

Introduction

1.9. In Chapter 4 of the Initial Proposals consultation we presented our Initial Proposals for two new SO incentives, relating to demand forecasting accuracy and website performance. All respondents commented on the issues raised in this chapter. We invited views on the following specific questions (and invited comments on any other issues that parties wished to raise under this heading):

- **Do you agree with the choice of performance measure for the gas demand forecasting accuracy and website performance incentives?**
- **Do you agree with the proposed scope of both of the proposed incentives?**
- **Do you agree that the incentives should not be weighted towards any specific period within the duration of the incentive?**
- **Do you consider posting of key data within 20 minutes of real time to be an appropriate measure of timeliness to use in the website performance measure?**
- **Do you consider Option 1 or Option 2 of the demand forecasting accuracy incentive to be most appropriate?**
- **Do you consider Option 1 or Option 2 of the website performance incentive to be most appropriate?**
- **Do you agree with the proposed duration of the incentives?**
- **Do you agree with the proposed method of recovering any resulting cost from these incentive schemes?**

Views of gas transporter Licensee

1.10. NGG commented on the issues raised in this chapter. We have summarised the points raised by this respondent as follows:

- NGG agreed that an incentive scheme was an appropriate framework to stimulate additional investment by NGG in advance of winter 2006/07. It also agreed that the proposed duration of the schemes was appropriate and would provide a sufficient window to deliver performance improvements.
- NGG considered the proposed scope and choice of performance measure for both incentives to be both appropriate and measurable.

- NGG was concerned that the proposed form of the website performance measure regarding availability would be overly sensitive to a single prolonged incident, and would instead favour a daily or monthly website availability target. At a minimum, NGG would support a proposal to "collar" the availability and timeliness elements of the website performance incentive.

- NGG suggested that specified "force majeure" events should be excluded from the website performance measure.

- NGG stated that (due to tight timescales) it was not able to state which option for each incentive it preferred. NGG has subsequently indicated that it would accept Option 2 for the demand forecasting accuracy incentive, on the basis that it is willing to accept the potential downside risk implicit in this option in return for the potential to earn relatively higher upside incentive payments than those available under Option 1. However, NGG has stated that it would be unwilling to accept Option 2 for the website performance incentive, on the basis that, although it considers it will be able to improve the availability and timeliness of its website in time for this winter, the extent of this improvement will be dependant upon the innately risky delivery of complex IS projects. As a consequence, it considers that the Option 1 model is more appropriate for this winter.

Views of customer representatives

1.11. Two customer representatives commented on the issues raised in this chapter:

- One of these respondents fully supported Ofgem's proposals, and one (energywatch) stated it had concerns regarding the need for the proposed incentive schemes

- One respondent stated that it would prefer a greater weighting to be applied to the timeliness element of the website performance incentive (specifying a preferred availability: timeliness ratio of 25:75)

- Both customer representatives favoured the Option 2 form for each incentive on the basis that NGG should be penalised for deteriorations in performance. Both respondents also considered the performance measures for both incentives to be appropriate. One of these respondents also agreed that the SO commodity charge was the most appropriate way of recovering any cost of the incentive, and

- One respondent (energywatch) stated that, if there was an obligation under the UNC for demand forecasts to be provided to a certain degree of quality, then the application of an incentive in this area would suggest the UNC was not a robust mechanism by which to ensure the enforcement of obligations.

Views of other industry participants

1.12. Six other parties commented on the issues raised in this chapter, as follows:

- Five of these respondents supported the concept of an incentive designed to improve the quality of NGG's gas demand forecasts and four supported an incentive designed to improve website performance.

- Two respondents did not support the proposals for the website performance incentive, and one considered that instead it would be preferable to allow NGG to recover any efficiently incurred capex in the price control for improvements in quality of information.

- Four industry participants preferred the Option 2 form for the incentives with two accepting that Option 1 may be appropriate, but only in this instance. One respondent considered that the initial slope of the incentive, for marginal improvements in performance, was too steep for both incentives. Another considered that although an Option 2 form was appropriate for the demand forecasting incentive, the payment for "target" improvement should be set at the (lower) level specified under Option 1.

- Two respondents stated that there should not be any weighting toward a specific period within the duration of the incentive, to ensure simplicity and transparency. One preferred a 75:25 winter to summer weighting, while another believed that an enduring form of an incentive could be weighted. One respondent felt that NGG should be incentivised only for attaining accuracy on peak days.

- Three network users asked for assurance that currently sanctioned website improvement projects would not provide NGG with financial benefits under the proposed incentives.

- Three network users considered the posting of key data within 20 minutes of real time to be an appropriate measure of timeliness to use in the website performance measure.

- Four respondents supported an initial duration of 6 months for the incentives. However two respondents preferred a longer duration to allow for benefits to accrue and to promote longer-term improvements in performance.

- Two network users agreed that any costs of these incentives should be recovered by the commodity charge. However, two respondents did not support this method of cost recovery and instead expressed a preference for these costs to be targeted on those who gain the most benefit from any improvements.

Ofgem's views

1.13. We would like to make the following observations in the light of the points raised by respondents in response to Chapter 4:

- We welcome the view of NGG that it considers the proposed framework of incentives an appropriate way of stimulating investment to deliver improvements in quality of information, in advance of this coming winter.

- We welcome the views of one customer representative that provided its full support for the proposals outlined in the Initial Proposals document, and who stated that the proposed scope of the incentives is acceptable in the short-term. In response to energywatch's concern regarding the interaction between the proposed incentives and the UNC, we can confirm that the UNC does not explicitly define the required quality of NGG's gas demand forecasts. In addition, we note that under the UNC, NGG is not liable (as to any loss or liability incurred by a user or otherwise) to any user in respect of or in consequence of any thing done or omitted to be done with regard to demand forecasting activities[24]. As a consequence, the proposed incentives cannot be interpreted as an attempt to enforce any existing UNC obligations. In addition (and for the avoidance of doubt), we do not consider that the proposed incentives in any way preclude any UNC party from proposing enhanced standards for the accuracy of gas demand forecasts prepared by NGG.

- We note the views of two respondents that stated a preference for the website incentive to be weighted to place more importance on timeliness of data delivery (compared to availability). We recognise that, over winter 2005/06, timeliness was perceived by some users as being the most significant problem regarding the provision of gas market operational data. However, we are concerned that by placing a relatively larger incentive on timeliness, that NGG may focus more resource on this area - potentially to the detriment of availability. Given that the proposed incentive is of a relatively short duration of six months, we propose maintaining the simple 50:50 split between availability and timeliness in our Final Proposals. However, we consider it may be appropriate to review this issue prior to the implementation of any enduring incentive arrangements relating to quality of information (from 1 April 2007).

- We note the view expressed by one respondent that, instead of implementing incentives, it would be preferable to allow NGG to recover the cost of capex spent on improving the quality and availability of information in the price control. In response, we would point out that, should NGG exceed its performance targets for the incentives, significantly larger returns on capital may be earned by NGG than would be available under the price control. Given the need to deliver significant improvement in these areas in time for this winter (and therefore the need to provide a clear commercial incentive on NGG to implement performance improvement initiatives in challenging timescales) we consider it appropriate to implement focused incentive schemes in this case. It is also important to note that we consider these incentives constitute a proportionate response to the benefits that may accrue to customers from improvements in the quality and availability of information provided by NGG.

- With regard to the most appropriate form to adopt for each of the incentives, we note that six respondents stated that the Option 2 form of each incentive was most appropriate (giving NGG both upside and downside risk in terms of incentive payments), and two respondents supported Option 1. We continue to

[24] Paragraph 5.2.7 of section H of the Transportation Principal Document (TPD).

consider that symmetrical incentives (such as the Option 2 proposals for both schemes) are most appropriate. This is because symmetrical incentives (i.e. those that place both upside and downside risk on NGG) typically present a more equal allocation of risk between NGG and customers, and provide sharper incentives on NGG in comparison to "upside only" schemes. As a consequence, and in light of the majority of respondents' views, we propose that an Option 2 incentive form is adopted for the demand forecasting accuracy incentive.

- As outlined above, NGG has indicated that it that it would not be prepared to accept a symmetrical incentive (Option 2) for the website incentive, on the basis that an Option 2 form of the incentive would be too risky to accept for this winter. In the exceptional circumstances of requiring improvements in website performance in time for this winter, and in light of the potential benefits to customers from improvements in website performance, we are prepared to accept the Option 1 proposals for this incentive for this winter. However, we would reiterate that we do not consider an incentive such as this would be appropriate for continuation beyond this winter, and that the form of this incentive will therefore be reviewed ahead of April 2007.

- We note that three respondents provided comments relating to the proposed incentive parameters. Specifically, one respondent considered the target for demand forecasting accuracy improvements should be in the range 15% to 20%, another considered the level of incentive payment triggered by a target performance improvement was too high, and another stated that the incentive payments under the Option 2 incentive form were twice as high as necessary. In response, we would reiterate that the parameters of the incentive options have been set to reflect both the potential benefits to customers that we consider may result from improvements in the quality of information provided by NGG, as well as the likely cost of new initiatives NGG will undertake to deliver these improvements. We consider that the incentive parameters have been set at a level that should provide a commercial incentive on NGG to deliver significant improvements in time for this winter, and that the benefits to customers of such improvements are likely to exceed any resulting incentive payments to NGG. We therefore do not propose amending these parameters in the Final Proposals.

- We note the views of the three respondents that favoured applying the demand forecasting incentive to sub-components of the demand forecast rather than on the accuracy of total system demand. In response, although we note that there may be more scope for improvement in NGG's forecasts of NTS directly connected loads, we consider total system demand to be the key indicator used by the market to indicate whether the system is likely to be "tight." As a consequence, it is the improved accuracy of this data that is likely to deliver the benefits quantified in the Initial Proposals. After this winter, we consider it may be appropriate to review whether total system demand remains the most appropriate performance measure to use in any enduring incentive. In addition, we welcome the view of three respondents that stated they considered the posting of key data within 20 minutes of real time to be an appropriate measure of timeliness to use in the website performance measure.

- In response to NGG's request that the website performance incentive should be calculated on a daily or monthly basis, we do not consider this approach to be

appropriate for this winter. We consider that calculating the incentive on a daily basis may result in there being a reduced commercial incentive on NGG to respond to problems that arise on individual days (given that, under a daily or monthly scheme, the incentive revenue "at stake" on any particular day / month would be greatly reduced). We consider this to be particularly important, given that most website performance problems tend to occur on a relatively small number of days when there are relatively high volumes of usage.

- Despite this, we do acknowledge NGG's concern that significantly poor performance early in the winter regarding website availability may reduce the incentive on NGG to improve performance for the remainder of the winter in terms of both availability and timeliness. As a consequence, we propose placing a collar on the contribution of each of the availability and timeliness elements of the incentive on the performance measure. This will be set at the collar that is specified for the overall website performance measure (i.e. at zero % improvement for the Option 1 incentive form).

- We also agree with NGG that it is appropriate for the impact of *force majeure* incidents to be excluded from the calculation of the incentive performance measures. However, we consider that all such events should only be excluded from the calculation of the performance measures at the discretion of the Authority. As regards the website performance incentive, for the avoidance of doubt, we do not consider that unusually high website usage, or website maintenance that could reasonably have been expected to be acceptable reasons for excluding incidents of poor performance from the website incentive performance measure over winter 2006/07.

- Three respondents asked for assurance that currently sanctioned website improvement projects would not provide NGG with financial benefits under the proposed incentives. The Initial Proposals document provided assurance that the initiatives outlined in that document were all incremental to currently sanctioned projects. In addition, NGG has subsequently stated that since winter 2005/6, no website improvement projects have either been carried out or sanctioned internally that "could be expected to lead to a change in the benchmark incentive performance for the incentive period compared to the benchmark period".

- We welcome the views of four respondents that an initial duration of six months is appropriate for the incentives and the views of another that stated the incentive should only apply to the winter months. We note the views of two respondents that favoured long-term incentives, yet we consider that, due to the nature of improvements required for this winter, and the form of incentive selected regarding website performance, it would be more appropriate to review these incentives after six months.

- Finally, we welcome the views of three respondents that considered it appropriate for any costs of these incentives to be recovered through the SO commodity charge. Two respondents considered it more appropriate for these costs to be collected from market participants that would benefit most from the incentives. However, we consider that demand forecasting and the provision of gas market operational data are activities that relate to NGG's general role as SO, and as such, it is most appropriate for the costs of any incentives relating to the

improvement in these activities to be recovered through the SO commodity charge.

Appendix 3 - Details of respondents

Introduction

1.1. This appendix lists the nine respondents to the Initial Proposals consultation, listed by industry group. No confidential responses were received to this consultation.

1.2. All of these responses have been posted on the Ofgem website.

Gas transporter Licensees

- National Grid Gas (National Transmission System)

Customer representatives

- Chemical Industries Association
- energywatch

Other industry participants

- Association of Electricity Producers
- Centrica Energy
- EDF Energy plc
- RWE npower
- Scottish and Southern Energy plc
- Statoil (UK) Ltd

Appendix 4 - Draft legal text

NOTICE UNDER SECTION 23(3) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 23(3) of the Gas Act 1986 ("the Act") as follows:

1. National Grid Gas plc ("NGG") is the holder of a gas transporters licence in respect of its National Transmission System (NTS) (the "NTS Licence") treated as granted under section 7 of the Act.

2. The Authority proposes to modify the conditions of the NTS Licence by amending Special Condition C8B in accordance with the Schedule to this Notice.

3. Subject to the outcome of this statutory consultation, consideration of respondents' views, any direction from the Secretary of State and the consent of NGG being given, it is the intention of the Authority that these proposed NTS Licence modifications shall have effect on and from 06:00 hours on 1 October 2006.

4. The reasons why the Authority proposes to make the NTS Licence modifications appearing in the Schedule to this Notice are set out in paragraph 5 below and were also set out in Ofgem's consultation document "Potential new System Operator quality of information incentive schemes for National Grid Gas " (Ref: 88/06) dated 26 May 2006; and in Ofgem's Final Proposals document "Potential new System Operator quality of information incentive schemes for National Grid Gas" (Ref: 122/06).

5. In summary, the effects of the proposed NTS Licence modifications are as follows:

a. the proposed amendments seek to place a commercial incentive on NGG to improve the accuracy of its short term gas demand forecasts and both the availability and timeliness of key gas market operational data published on NGG's website in advance of winter 2006/07;

b. the incentive scheme parameters of NGG's new quality of information incentives will apply on and from 06:00 hours on 1 October 2006 to 06:00 hours on 1 April 2007, and the parameters for each incentive are outlined below:

	Improvement on winter 2005/06 performance			
	-5% (Collar)	*0% (Benchmark)*	*5% (Target)*	*100% (Cap)*
Demand forecasting accuracy incentive	-£1.6m	£0m	£1.6m	£9.2m

	Improvement on winter 2005/06 performance		
	0% (Benchmark and collar)	*27% (Target)*	*100% (Cap)*
Website performance incentive	£0m	£1m	£1.5m

c. the demand forecasting incentive is designed to improve the accuracy of NGG's day-ahead forecast of total NTS throughput, with benchmark performance being set at the level of the accuracy of NGG's day ahead gas demand forecasts over winter 2005/06; and

d. the website performance incentive has two components; one designed to improve the availability of key gas market operational data fields on NGG's website (and therefore reduce the "downtime" of the web pages identified in the incentive), and one designed to improve the timely updating of those data fields. The benchmark level of performance for both elements of the website performance incentive has been derived from data on website performance collected over winter 2005/06.

6. A copy of this Notice and the documents referred to in paragraph 4 of this notice are available (free of charge) from the Ofgem library (telephone 020 7901 1600) or on the Ofgem website (www.ofgem.gov.uk).

7. Any representations or objections to the proposed NTS Licence modifications may be made in writing before 25 August 2006 to:

Simon Bradbury
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

or by email to wholesale.markets@ofgem.gov.uk

Steve Smith
Duly authorised on behalf of the Authority
14 July 2006

Schedule

1. Special Condition C8B of the NTS Licence is amended in accordance with paragraphs 2 and 3 below.

2. At the end of the paragraph 14(2) of Part 2, insert—

"However, for the purposes of paragraph 14(1) of Part 2 of this condition, the NTS system operator incentive revenue in respect of the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007) shall be derived from the following formula:

SOIRt = ECIIRt + ExCIIRt + ExCBBIIRt + BBIRt + SBIRt + RBIRt + ICIRt + QIIRt

Where:

QIIRt means the quality of information incentive revenue in respect of formula year t, and shall be derived in accordance with paragraph 14(13)(a) of Part 2 of this condition; and

the expressions ECIIRt, ExCIIRt, ExCBBIIRt, BBIRt, SBIRt, RBIRt and ICIRt have the same meaning as set out above in this paragraph 14(2)."

3. After paragraph 14(12) of Part 2, insert—

"**(13) Quality of information incentive**

(a) Principal formula

For the purposes of paragraph 14(2) of Part 2 of this condition, the quality of information incentive revenue allowed to the licensee in respect of formula year t (QIIRt) shall be derived in the following manner:

QIIRt = QDIIRt + QWIIRt

where:

QDIIRt means the quality of demand information incentive revenue, and shall be derived in accordance with Table (A) below.

QWIIRt means the quality of website information incentive revenue, and shall be derived in accordance with Table (B) below.

The value of QDIIRt is dependant upon the level of QDIPt, where QDIPt means the quality of demand information performance measure as defined in paragraph 14(13)(b).

Table (A)

QDIPt	QDIIRt
QDIPt ≤ -0.05	-£1.6m
-0.05 < QDIPt < 0	(QDIPt x 100) x £0.32m
QDIPt = 0	0
0 < QDIPt < 0.05	(QDIPt x 100) x £0.32m
QDIPt = 0.05	£1.6m
0.05 < QDIPt < 1	[((QDIPt - 0.05)x 100) x £0.08m] + £1.6m
QDIPt ≥ 1	£9.2m

The value of QWIIRt is dependant upon the level of QWIPt, where QWIPt means the quality of website information performance measure as defined in paragraph 14(13)(c).

Table (B)

QWIPt	QWIIRt
QWIPt ≤ 0	0
0 < QWIPt < 0.27	(QWIPt x 100) x £0.037m
QWIPt = 0.27	£1m
0.27 < QWIPt < 1	[((QWIPt – 0.27) x 100) x £0.00685m] + £1m
QWIPt ≥ 1	£1.5m

(b) Quality of demand information performance measure

For the purposes of paragraph 14(13)(a) of Part 2 of this condition the quality of demand information performance measure (QDIPt) shall be derived from the following formula:

$$QDIP_t = \frac{\left(0.036 - \frac{\sum_{d}^{D} \left| DADF_d - AD_d \right|}{\sum_{d}^{D} AD_d}\right)}{0.036}$$

Where d is the first day of the scheme, commencing at 06:00 on the 1st October 2006, and D is the final day of the scheme, finishing at 06:00 on 1st April 2007 and where,

DADFd means the day-ahead UNC 14:00 demand forecast for a given gas day (d), being the forecast NTS throughput value (in mcm) published by the licensee on its website before 14.00 hours at day ahead (d-1) in respect of each day of the last 6

months of formula year t=5 (i.e. day-ahead UNC 14:00 demand forecasts in respect of 1 October 2006 to 1 April 2007)

ADd means Actual NTS Throughput (in mcm) on a given gas day (d), calculated five days following the gas day (d+5) on each day of the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007)

where,

Actual NTS Throughput means the total offtake of gas from the NTS on a gas day, including gas offtakes by the DN Operators, storage facilities, interconnectors and Very Large Daily Metered Consumers (VLDMC) connected to the NTS (as defined in the Network Code), plus the physical elements of NTS shrinkage (measured in mcm).

(c) Quality of website information performance measure

For the purposes of paragraph 14(13)(a) of Part 2 of this condition the quality of website information performance measure (QWIPt) shall be derived from the following formula:

$$QWIP_t = \frac{\left\{MAX\left[\left(\frac{362 - WPM_t}{362}\right),0\right] + MAX\left[\left(\frac{WTP_t - 0.515}{0.515}\right),0\right]\right\}}{2}$$

where,

WPMt means website availability performance measure, calculated as follows:

$$WPM_t = \frac{\left(WAPL_t + WAPNN_t + WAPNA_t + WAPDF_t\right)}{4}$$, and

WTPt means website timeliness performance measure calculated as follows:

$$WTP_t = \frac{\left(WTPL_t + WTPNN_t + WTPNA_t + WTPDF_t\right)}{4}$$

where,

WAPLt means website availability performance measure for the licensee's website linepack data field (NB92) expressed as number of minutes of downtime of the NB92 report published on the licensee's website over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007)

WAPNNt means website availability performance measure for the licensee's website NTS nominated flows data field (NTSAFF) expressed as number of minutes of

downtime of the NTSAFF report published on the licensee's website over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007)

WAPNAt means website availability performance measure for the licensee's website NTS actual flows data field (NTSAPF) expressed as number of minutes of downtime of the NTSAPF report published on the licensee's website over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007)

WAPDFt means website availability performance measure for the licensee's demand forecast data field (SISR03) expressed as number of minutes of downtime of the SISR03 report published on the licensee's website over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007)

WTPLt means website timeliness performance measure for the licensee's website linepack data field (NB92), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007) that hourly data updates were posted within 20 minutes of the start of the hour (i.e. the 12:00 update published by 12:20 at the latest), expressed as a proportion of all publication occasions

WTPNNt means website timeliness performance measure for the licensee's website NTS nominated flows data field (NTSAFF), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007) that hourly data updates were posted within 20 minutes of the start of the hour (i.e. the 12:00 update published by 12:20 at the latest), expressed as a proportion of all publication occasions

WTPNAt means website timeliness performance measure for the licensee's website NTS actual flows data field (NTSAPF), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007) that hourly data updates were posted within 20 minutes of the start of the hour (i.e. the 12:00 update published by 12:20 at the latest), expressed as a proportion of all publication occasions

WTPDFt means website timeliness performance measure for the licensee's demand forecast data field (SISR03), and has a value between 0 and 1, representing the proportion of occasions over the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007) that the 14:00 hours (day ahead), 02:00 hours (day ahead), 12:00 hours (within day), 15:00 hours (within day), 18:00 hours (within day) and 21:30 (within day) publication deadlines are met

SISR03 means a report published by the licensee showing, amongst other data, the forecast level of Actual NTS Throughput (measured in mcm)

NB92 means an hourly report published by the licensee showing, for a gas day, the opening linepack (as defined in the Network Code), two projected closing linepack figures, and forecast total NTS demand (measured in mcm)

NTSAFF means an hourly report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on delivery flow nominations (measured in mcm)

NTSAPF means an hourly report published by the licensee showing, for each day, aggregate forecast flows of gas into the NTS based on actual (aggregate) physical flows into the NTS (measured in mcm).

(d) Exceptional events

(i) Where:

(aa) the licensee has notified the Authority of an event (the "notified event") which it considers to be an exceptional event within 14 days of its occurrence; and

(bb) the Authority is satisfied that the notified event is an exceptional event,

the Authority may issue a direction excluding from the quality of demand information performance measure (QDIPt) and/or the quality of website information performance measure (QWIPt) a specified period within the last 6 months of formula year t=5 (i.e. 1 October 2006 to 1 April 2007) during which the exceptional event has occurred.

(ii) A notice provided to the Authority by the licensee under paragraph 14(13)(d)(i) of Part 2 of this condition must give particulars of the notified event and the reasons why the licensee considers it to be an exceptional event.

(iii) A direction made by the Authority under paragraph 14(13)(d)(i) of Part 2 of this condition may be made subject to such terms and conditions as may be specified in the direction.

(iv) A direction issued by the Authority under paragraph 14(13)(d)(i) of Part 2 of this condition shall not have effect unless, before it is made, the Authority has given notice to the licensee:

(aa) setting out the terms of the proposed direction;

(bb) stating the reasons why it proposes to make the direction; and

(cc) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections,

and the Authority has considered such representations or objections and given reasons for its decision.

(v) For the purposes of this paragraph, an "exceptional event" means an event or circumstance that is beyond the reasonable control of the licensee and shall include, but not be limited to, catastrophic loss of power, sabotage, act of vandalism, flood, fire and any third party product or service failure having an industry wide impact."

Appendix 5 - Calculation of incentive performance measure

1.1. This appendix describes how the performance measures for the two proposed incentives will be calculated. It builds upon Appendix 5 of the Initial Proposals consultation document.

Demand forecasting incentive performance measure

1.2. It is proposed that the performance measure for the demand forecasting incentive (based on total NTS throughput) is calculated as follows:

- sum the absolute error in each day's 14.00 day-ahead demand forecast (compared to actual daily demand calculated at D+5) over the duration of the incentive period (in mcm), and
- divide total (daily) absolute error by total actual demand over the same time period.

1.3. Calculating the incentive in this manner will mean daily absolute demand forecasting error will be treated equally across the duration of the incentive. This approach is also consistent with the approach adopted for other comparable SO incentive schemes (such as the cumulative Incentivised Balancing Cost in the electricity SO incentive scheme).

Example: performance over winter 2005/06

1.4. Over winter 2005/06 (1 October 2005 - 1 April 2006):

- total daily error in the 14.00 day ahead demand forecast = 2024mcm
- total NTS throughput = 57010mcm

1.5. Performance over winter 2005/06 therefore = 2024/57010 = 3.6%. This is the benchmark we propose using for winter 2006/07 performance.

Website incentive performance measure

1.6. It is proposed that improvements in NGG's website performance are measured equally between improvements in availability and timeliness.

Availability

1.7. As described in Chapter 3, availability will be measured as being the average downtime over winter 2006/07 of NGG's web pages for linepack data, physical flows into the NTS, nominated flows into the NTS, and forecast demand[25]. Availability of these web pages will be measured on a 24 hours a day, 7 days a week basis, providing a composite measure of availability over winter 2006/07.

Timeliness

1.8. Timeliness will be measured for the same data fields outlined above, on the following basis:

Data report	Measure
Linepack (NB92)	% of occasions data posted within 20 minutes of real time
NTS nominated flows (NTSAFF)	% of occasions data posted within 20 minutes of real time
NTS actual flows (NTSAPF)	% of occasions data posted within 20 minutes of real time
Demand forecast (day ahead and within day)	% of occasions 14:00, 02:00 (day ahead) 12:00, 15:00, 18:00 and 21:30 (within day) publication deadlines met

1.9. These measures will be calculated over the duration of the incentive period, and averaged to provide a composite measure of timeliness.

Calculation of website performance measure

1.10. The overall performance measure will be calculated by taking an average of the percentage improvement in both availability and timeliness in winter 2006/07 compared to winter 2005/06.

[25] The web pages for which availability will be measured are: http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/SIS03.htm (SISR03), http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/NTSAFF.htm (NTSAFF), http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/NTSAPF.htm (NTSAPF), and http://www.nationalgrid.com/uk/Gas/Data/EDR/Within/NB92.htm (NB92).

Worked example

1.11. The website performance incentive uses average percentage improvement in website availability and timeliness compared to winter 2005/06 as its performance measure.

Winter 2005/06 performance

1.12. From the data presented in Chapter 2, we have developed benchmarks for NGG's performance in terms of both availability and timeliness. These are:

- **Availability**. NGG data on the availability of NTSAPF over winter 2005/06 provides a suitable proxy for availability over this period. Following a small number of amendments (as described in Chapter 2), this is calculated as being 6 hours 2 minutes of downtime (equivalent to 99.86% availability, applied from 1 October to 31 March).

- **Timeliness**. Averaging the percentage of occasions linepack, NTS nominated and NTS actual flow data were updated on the website within 20 minutes, and the percentage of occasions forecast demand was posted within specified timescales gives a performance metric of 51.5%[26].

1.13. This calculation is outlined in Table 2 below:

Table 2: Calculation of timeliness benchmark

Data report	Measure	Winter 2005/06 performance
Linepack (NB92)	% of occasions data posted within 20 minutes of real time	25%
NTS nominated flows (NTSAFF)	% of occasions data posted within 20 minutes of real time	40%
NTS actual flows (NTSAPF)	% of occasions data posted within 20 minutes of real time	46%
Demand forecast (day ahead and within day)	% of occasions 14:00, 02:00 (day ahead) 12:00, 15:00, 18:00 and 21:30 (within day) publication deadlines met	95%
Average performance (benchmark)		**51.5%**

[26] Note that, as outlined in Chapter 2, these have been revised from the data reported in our Initial Proposals consultation document.

Winter 2006/07 performance, and incentive performance calculation

1.14. The following table illustrates:

- the benchmark level of performance measure, for both website availability and timeliness
- an example of winter 2006/07 performance, and
- an illustration of how the average percentage improvement in availability and timeliness will be calculated.

Table 3: Calculation of percentage improvement in website performance (1)

Performance measure	Winter 2005/06 performance (benchmark)	Example - assumed winter 2006/07 performance	Percentage improvement
Availability	6 hours 2 minutes downtime	4 hours 24 minutes downtime	27%
Timeliness	51.5%	65.4%	27%
Average percentage improvement			**27%**

1.15. In the above example, the assumed average percentage improvement of both availability and timeliness equals 27%. This is the "target" level of performance improvement, indicated in Chapter 3 as triggering an incentive payment of £1m under the proposed incentive. Note that placing a target on the average percentage improvement of availability and timeliness gives NGG an amount of flexibility in the way in which improvements in the performance of its website are delivered (as improvements in availability and timeliness are given equal weighting).

1.16. In addition, and as described in Chapter 3, the contribution of the availability and timeliness elements of the performance measure will be collared at zero. A further example of how the performance measure would be calculated (this time, in the event of a deterioration in availability) is outlined in the following table:

Table 4: Calculation of percentage improvement in website performance (2)

Performance measure	Winter 2005/06 performance	Example - assumed winter 2006/07 performance	Percentage improvement	Input to performance measure
Availability	6 hours 2 minutes downtime	6 hours 20 minutes downtime	-5%	0%
Timeliness	51.5%	65.4%	27%	27%

Performance measure	Winter 2005/06 performance	Example - assumed winter 2006/07 performance	Percentage improvement	Input to performance measure
Average percentage improvement				**13.5%**

Appendix 6 - Measurement methodology

1.1. This appendix describes the methodology that will be used to measure website availability over winter 2006/07.

Measurement methodology

1.2. The measurement of the availability of key elements of NGG's website in winter 2006/07 will be undertaken as follows:

- Website availability will be calculated as being the average availability of NTSAFF, NTSAPF, NB92 and SISR03 web pages over the measurement period
- The measurement period will be between 06:00 hours on 1 October 2006 and 06:00 hours on 1 April 2007
- Availability over this period will be measured 24 hours per day, 7 days a week
- Measurement of website availability will be undertaken by an independent specialist web page monitoring company
- Testing will be undertaken at 10 minute intervals over the measurement period, with an immediate retest when a status other than "Site OK" is returned
- Failures of availability will be defined as events where the page fails to load, or a "time-out" is registered. Minor errors or warnings (i.e. those that do not relate to the delivery of market operational data) will not be considered as an availability failure, and
- "Time-outs" will be defined as being where it takes 20 seconds or more to download the full web page.

Appendix 7 - Exclusions from website performance measure

1.1. For the purposes of the information quality incentive, NGG would be able to apply for a time period:

a. during which an "exceptional event" has occurred; or
b. during which NGG's website is unavailable as a result of an "exceptional event" (including, for the avoidance of doubt, the time taken to implement system changes to resolve the unavailability and / or prevent reoccurrence of the unavailability),

to be excluded from the incentive calculation, where the Authority is satisfied that such an event is an "exceptional event". The licensee must notify the Authority of an "exceptional event" within 14 days of its occurrence.

1.2. An "exceptional event" means an event or circumstance that is beyond the reasonable control of the licensee.

1.3. Note that the Authority is unlikely to consider an event to be an "exceptional event" if it is something that NGG could reasonably have been expected to protect against or if it is an event in respect of which NGG could reasonably have been expected to have put in place processes in order to handle its effects. For example, the Authority would expect NGG to put in place processes and sufficient safeguards to protect against computer viruses, however a "denial of service" attack[27] on National Grid's infrastructure to prevent legitimate users from using the service may be considered by the Authority to constitute an "exceptional event".

1.4. It should be noted, however, that the Authority cannot fetter its discretion in advance and any decision as to whether or not an event is an "exceptional event" would be taken on a case by case basis in the light of all the circumstances.

[27] A "denial of service" attack is a malicious attempt by a third party to render a computer or network of computers incapable of providing normal services.

Appendix 8 - The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.[28]

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly[29].

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them[30]; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.[31]

[28] entitled "Gas Supply" and "Electricity Supply" respectively.
[29] However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.
[30] under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.
[31] The Authority may have regard to other descriptions of consumers.

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- Promote efficiency and economy on the part of those licensed[32] under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation[33] and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

[32] or persons authorised by exemptions to carry on any activity.
[33] Council Regulation (EC) 1/2003

Appendix 9 - Glossary

D

Daily Metered (DM)

Supply points with meters which read volumes of gas consumed either on a continuous or on a daily basis.

Demand Side Working Group (DSWG)

Group set up by Ofgem intended to encourage demand side participation within the wholesale electricity market. The group considers, amongst other things, ways to remove barriers to entry to the market.

Denial-of-service attack

A computer crime in which a third party maliciously attempts to render a computer (or network of computers) incapable of providing normal services.

Downtime

The period over which a data field or page on NGG's website is not available.

G

Gas Day

The period from 06:00 hours on one day until 06:00 hours on the following day.

GDN

Gas Distribution Network

Gemini

Run by xoserve, Gemini delivers transportation transactional services on behalf of each of the Network companies to the gas Shipper. Gemini enables gas shippers to carry out gas nominations, energy balancing and exit capacity bookings.

I

I & C users

Industrial and commercial users of the gas network.

L

Linepack

The volume of gas within the National or Local Transmission System at any time.

M

MCM

Millions of standard cubic metres.

N

National Grid Gas (NGG)

The licensed gas transporter responsible for the gas transmission system, and four of the regional gas distribution companies.

National Transmission System (NTS)

A high-pressure system consisting of terminals, compressor stations, pipeline systems and offtakes. Designed to operate at pressures up to 85 bar. NTS pipelines transport gas from terminals to NTS offtakes.

NB92 - System Status Information

This report, available on NGG's website, shows for a single day the opening linepack, two projected closing linepack figures and demand.

NTSAFF - Aggregate Forecast Flows into the NTS

This report, available on NGG's website, shows for a single day, the forecast end of day aggregate flows into the NTS, as calculated at each hour.

NTSAPF - Aggregate Physical Flows into the NTS

This report available on NGG's website shows for a single day, the instantaneous physical aggregated flows into the NTS, for each hour, derived from instantaneous flows. For Bacton, Interconnector and Storage Facilities, this report only aggregates quantities of gas that have entered the NTS and does not take into account any Gas that may have exited the NTS through these points.

S

Shippers

A person other than a Transporter who is for the time being bound by the UNC pursuant to a Shippers Framework Agreement.

SISR03 (Forecast Demands)

This report is available on NGG's website and shows the latest available approved forecast demand (in mcm) for each of the LDZ's (Local Distribution Zones) for a single day, and also the sum of all LDZ forecast demand. Additionally the projected throughput (in mcm) for the same gas day is also displayed.

Sliding Scale

This term is used generically to describe incentive schemes which involve profit (and loss) sharing around a fixed target costs, such as the current form of SO incentives in gas and electricity.

System Operator (SO)

The system operator has responsibility to construct, maintain and operate the NTS and associated equipment in an economic, efficient and co-ordinated manner. In its role as SO, NGG is responsible for ensuring the day-to-day operation of the transmission system.

T

Therm

An imperial unit of energy, largely replaced by the metric equivalent equal to 29.3071 kilowatt hours.

Transporter

National Grid NTS, or a GDN.

U

Uniform Network Code (UNC)

As of 1 May 2005, the UNC replaced NGG's Network Code as the contractual framework for the NTS, GDNs and system users.

Appendix 10 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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