

Modification proposal:	Uniform Network Code (UNC) 108: Publication of Near Real Time Data at UK sub-terminals		
Decision:	The Authority ¹ has decided that this proposal should be rejected		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	28 September 2006	Implementation Date:	Not applicable

Background

UNC Modification Proposal 006² (Modification 006) was raised by energywatch³ and sought to release to the market information regarding the flows of gas at each of the entry points to the National Transmission System (NTS), known as sub-terminals, on a near to real time basis. To address concerns regarding commercial confidentiality energywatch proposed that Modification 006 should only apply to sub-terminals with the capability to flow more than 10mcm of gas per day. This means that at the moment Rough and Hornsea are the only storage facilities caught by the provisions of Modification 006.

Following lengthy industry consultation Modification 006 was approved by the Authority in May 2006 and will be implemented on 3 October 2006.

The modification proposal

UNC Modification Proposal 108 (the proposal) was raised by Centrica Storage Limited (CSL) on 16 August 2006 and seeks to amend the changes made to the UNC as a result of Modification 006. CSL has proposed that information that is shortly due to be published under Modification 006 regarding the gas flows from storage facilities should be aggregated into a single entry point and should also include gas flow information for storage facilities with a capability below 10mcm/day. As such, if approved, the proposal would require National Grid Gas NTS (NGG NTS) to publish a single figure regarding the flows of gas from all storage facilities instead of individual figures regarding gas flows at the sub-terminals connecting the Rough and Hornsea storage facilities to the NTS (which, as explained above, are the only storage facilities that currently will have flows released through Modification 006). The proposal is seeking to address concerns raised by CSL that implementation of Modification 006 would expose its commercial position.

CSL is concerned that if information regarding flows from the relevant storage facilities is made available under Modification 006 it will be possible for third parties to discern how the relevant storage operators are performing against their nominated positions, especially in the case of storage facilities with Third Party Access (TPA). CSL notes that if third parties observe a reduction in flows from relevant storage facilities, as compared with nominations, this will provide a clear indication that they are experiencing an outage. CSL contends that the relevant storage operators would be placed in the position of a distressed buyer in the event that they were to experience an outage as third parties would have full visibility of their position; CSL notes that some storage operators are further exposed through the Guidelines for Good TPA Practice for Storage System

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority, the regulator of the gas and electricity markets in Great Britain.

² "3rd Party Proposal: Publication of Near Real Time Data at UK Sub-terminals"

³ Raised in November 2004.

Operators (GGPSSO), which state that storage operators should allocate the gas which has been nominated, if the nomination has been accepted by the storage operator (meaning that any shortfall in the physical flows from facilities is made up solely by the storage operator in the market). CSL contends that this responsibility to secure gas to meet nominations provides third parties with an incentive to increase the prices they offer to CSL at the National Balancing Point (NBP).

CSL considers that the proposal will better facilitate the achievement of the relevant objectives contained in standard special condition A11(1) of the gas transporters licence by avoiding discriminatory behaviour and inefficient rents being extracted. CSL also considers that the proposal will secure effective competition between relevant shippers by removing the discriminatory information obligation which unduly exposes the commercial exposure of certain types of system user.

CSL requested that the proposal should be considered as urgent on the basis that implementation of the proposal was linked to a date-related event, specifically the implementation of Modification 006 on 3 October 2006. We granted the proposal urgent status on 16 August 2006 noting that there may be a significant commercial impact on affected users if the proposal were to follow non-urgent procedures. However, we also stated that we were disappointed that the modification had been raised as urgent at such a late stage in the process (i.e. in relation to the implementation date of 3 October 2006 for Modification 006).

UNC Panel⁴ recommendation

The proposal was discussed at the UNC Modification Panel (the panel) on 21 September 2006. The recommendation from the panel following this meeting was for the proposal to be approved.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 September 2006. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁵. The Authority has concluded that implementation of the modification proposal would not better facilitate the achievement of the relevant objectives of the UNC⁶.

Reasons for the Authority's decision

Ofgem considers that the modification proposal impacts on the facilitation of relevant objectives (a) and (d) and we set out below the reasons why we believe that the proposal would not better facilitate these objectives. For the avoidance of doubt, we have considered the merits of the proposal against all UNC objectives, however for the purpose of our decision we consider objectives (a) and (d) to be pertinent.

⁴ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁵ UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁶ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available from the electronic public register section of the Ofgem website: www.ofgem.gov.uk

Relevant Objective (a) (Standard Special Condition A11(1)(a)) the efficient and economic operation of the pipe-line system to which this licence relates

In taking our decision on Modification 006, we noted the importance of information transparency to allow the market to operate economically and efficiently. Increased transparency could also assist with more effective residual balancing, help to reduce market volatility and improve market perception and liquidity.⁷

We note the views of those respondents who stated that if the proposal were to be approved this would reduce the level of information transparency in the market and that this would have corresponding implications for the economic and efficient operation of the market.

However, we also note CSL's intention for the proposal to release not only an aggregated figure for gas flows from those storage facilities that flow over 10 mcm/day (and therefore only currently relate to the Rough and Hornsea storage facilities), but to also include gas flow information for storage facilities under the 10mcm/day threshold (i.e. included in the aggregate flow figures). This means that while the proposal would release aggregated gas flow information in respect of Rough and Hornsea, and therefore reduce the level of information due to be released in respect of these facilities under Modification 006; the proposal would also release (in aggregate) gas flow information regarding a number of smaller storage facilities that will not be released to the market under Modification 006.

We note that a number of respondents stated that the Rough and Hornsea storage facilities currently occupy unique and important positions in the market given their size and deliverability to the system and that it is therefore important that real time flow information is released to the market as part of Modification 006.

We agree that storage has an important role to play in the GB market in providing flexibility to meet seasonal peak demand or to deal with sudden outages of supply. In the 1998/99 review of storage undertaken by Ofgas^{8,9} the importance of Rough and Hornsea in meeting the peak demand of gas was highlighted. That review concluded that, given the significance of Rough and Hornsea, BG as the owner of these sites was capable of exercising market power. This view has been further endorsed through the undertakings provided to the Secretary of State by Dynegy on its acquisition of Rough and Hornsea, the imposition of undertakings on CSL in respect of its ownership of Rough and the informal assurances provided by SSE on its acquisition of Hornsea. With the further decline of GB indigenous supplies and a tightening of the overall supply/demand balance, the two storage facilities, because of their size and characteristics¹⁰ in being able to meet the peak demand for gas, continue to play an important role. This is further recognised by the requirements of the owners of these two facilities to provide third party access. Against this background, we think it is important that the market is able to understand the flows out of the two facilities.

⁷ The Authority's decision on [Uniform Network Code \(UNC\) 006 "3rd Party Proposal: Publication of Near Real Time Data at UK Sub-terminals"](#), 03 May 2006 and [3rd Party Proposal: Publication of Near Real Time Data at UK Sub-terminals, Modification Reference Number UNC 006, Impact Assessment](#), 03 February 2006 can be viewed on the Ofgem website.

⁸ In June 1999, Ofgas, the gas regulator, merged with OFFER, the electricity regulator, to form the Office of Gas and Electricity Markets.

⁹ See for example, 'Review of the supply of gas storage and related services: Development and implementation of the agreement between Ofgas and BG plc: Volume 1: Consultation Document', Ofgas, December 1998

¹⁰ Rough is capable of meeting around 10% of peak day demand, whereas Hornsea's short lead times for injection and withdrawal render its services attractive to customers.

As such, while we note that the proposal would introduce new, albeit aggregated, information regarding the gas flows at a number of additional small facilities (that would not be released under the current baseline), should the proposal be approved, this would represent a reduction in the overall amount of information made available to the market in respect of the Rough and Hornsea facilities. Therefore, given the position that these facilities occupy in the market, we consider that the resulting reduction in information regarding these facilities, would at best be neutral to, or at worst may result in a less economic and efficient operation of the system due to the reduced economic signals to the market.

Clearly this is an issue that market participants will want to keep under review. There is currently significant investment being undertaken to develop new storage facilities within GB with some of these facilities being less than 10mcm/day. As a result of these new facilities coming on line we would expect, at some point in the future, effective competition to emerge in the provision of storage services, which should result in Rough and Hornsea no longer requiring this differentiation. In the meantime, it will obviously be open to parties to raise modifications which consider these issues again and in particular whether the 10mcm/day de minimis level remains appropriate and/or whether there should be any aggregation of flows from storage facilities.

On balance, we therefore do not consider that the Proposal would better facilitate the achievement of relevant objective (a) of the UNC as it would reduce the level of information transparency surrounding Rough and Hornsea that currently occupy unique and important positions within the GB gas market.

Relevant Objective (d) (Standard Special Condition A11(1)(d)) the securing of effective competition between relevant shippers, between relevant suppliers and/or between DN operators and relevant shippers

In taking our decision on Modification 006 we recognised the benefits that the release of information under Modification 006 would have in terms of levelling the playing field and thereby increasing the level of competition in the market by allowing market participants to make more informed purchasing decisions.

We remain of the view that the 10mcm/day threshold in Modification 006 will provide most parties with sufficient protection from exposure of their commercial position, but recognise that a small number of parties may, in specific circumstances, face potential exposure where they suffer an offshore outage. As set out in our guidance regarding information release¹¹, we believe that if parties have concerns regarding the release of information which they consider to be commercially sensitive, it is appropriate for these parties to demonstrate why this is the case.

A number of respondents stated that in the event of an outage at a storage facility the operator of the facility would become a distressed buyer and that this would allow third parties to charge premium prices and therefore extract inefficient rents from them. We note that it is possible for storage operators to enter into commercial arrangements for the provision of gas outside of their public storage contracts. For example, storage operators could contract with producers or large customers to provide them with gas in the event that outages are (or are likely to be) experienced at the storage facility. This

¹¹ [Information release under Gas Transporters Licence Standard Special Condition A7, Guidance Document: Version 2.0](#), November 2005

type of contractual arrangement would act as an effective form of “insurance” and serve to mitigate some of the risk of commercial exposure associated with a potential outage at the storage facility.

As such, given that there are commercial tools available to parties to mitigate the effects of these perceived risks, we do not consider it has been demonstrated that it is necessary for the current arrangements to be amended to provide additional safeguards for the commercial position of the relevant storage operators and, in effect, discriminate in their favour relative to other sub-terminals that will continue to have this information released in a disaggregated format.

We would highlight the undertakings in place regarding the operation of the Rough facility which, amongst other things, require CSL to provide information to the market regarding aggregate nominations. In addition, we note that the GGPSSO (which apply to both the Rough and Hornsea facilities), although not legally binding, nevertheless state that storage operators should release information regarding aggregate nominations and allocate customers ‘whole’ i.e. to ensure that the gas required to meet customer nominations is available. As discussed above, such provisions were put in place to ensure transparency regarding the operation of storage facilities in light of the position that these facilities occupy within the gas market and their ability to exercise market power.

Given the importance of the relevant storage facilities to the effective functioning of the GB gas market and the position that they hold in this respect, the differences in arrangements at these storage facilities are justified, and therefore any discrimination is due in these circumstances.

We consider that the proposal would not better facilitate the achievement of relevant objective (d) of the UNC as it would not assist in securing effective competition between players.

Yours sincerely

A handwritten signature in black ink, appearing to be 'S. Smith', written over a white background.

Stephen Smith

Managing Director, Markets

Signed on behalf of the Authority and authorised for that purpose