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Gas transmission system
operators, distribution system
operators and other interested
parties

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Date: 13 November 2014

Dear Colleague,

Consultation on the designation of the “forecasting party” as required for compliance with the Gas Balancing of Transmission Networks Network Code¹

To comply with new European Union (EU) laws, Ofgem in its capacity as National Regulatory Authority (NRA) for Great Britain (GB)² is required to designate the forecasting party in the GB balancing zone following consultation with transmission system operators (TSOs) and distribution system operators (DSOs) concerned. This letter therefore is that consultation in respect of the forecasting party that requires to be designated by Ofgem for the GB balancing zone.

For the reasons set out in this letter it appears to us at present that National Grid Gas (NGG) is the most appropriate party to be designated as the forecasting party for the GB balancing zone.

We welcome your views on the questions outlined in this letter. Please email your response to jessica.housden@ofgem.gov.uk by 11 December 2014.

Background

The final report of the European Commission’s sector inquiry into competition in gas and electricity markets (published in January 2007)³ noted (amongst other things) the lack of effective competition in European markets.

In response, a suite of legally binding EU legislation, referred to as the Third Package⁴, on European electricity and gas markets was introduced and adopted on 13 July 2009. The Third Package was transposed into GB law by Regulations that came into force on 10 November 2011.⁵

¹ Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.091.01.0015.01.ENG.

² s.3A(1) Utilities Act 2000, as inserted by section 22 of the Electricity and Gas (Internal Markets) Regulations 2011.

³ <http://ec.europa.eu/competition/sectors/energy/inquiry/>

⁴ In relation to gas, the Third Package includes Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the “Gas Directive”) and Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (the “Gas Regulation”).

⁵ The Electricity and Gas (Internal Markets) Regulations 2011: <http://www.legislation.gov.uk/ukxi/2011/2704/contents/made>.

The Third Package created a new legal framework to promote cross-border trade. It requires a number of legally binding Guidelines and Network Codes to be established and implemented. Taken together, these aim to promote liquidity, improve integration between Member States' gas markets and promote the efficient use of interconnectors to ensure that gas flows according to price signals, ie to where it is valued most.⁶ These EU legislative requirements take priority over GB domestic legislation and associated regulations and codes, including the Uniform Network Code (UNC).

One such Network Code is the Gas Balancing of Transmission Networks Network Code⁷ (BAL), which was published in the Official Journal of the European Union on 27 March 2014 and applies from 1 October 2015. BAL aims to facilitate cross-border gas trade and the further development of competitive and efficient wholesale gas markets in Europe. The Code requires the use of non-discriminatory and transparent balancing systems, which are of particular importance for new market entrants.

One of the legally binding requirements of BAL is that Ofgem, as the NRA for GB, must designate a forecasting party for the balancing zone in GB. Article 39(5) of BAL states that:

*The national regulatory authority shall designate the forecasting party in a balancing zone after prior consultation with the transmission system operators and distribution system operators concerned. The forecasting party shall be responsible for forecasting a network user's non daily metered off-takes and where appropriate its subsequent allocation. It may be a transmission system operator, distribution system operator or a third party.*⁸

Duties of the forecasting party

BAL requires the forecasting party to fulfil various tasks. Those tasks are summarised below. The forecasting party may collaborate with other parties in order to fulfil some of the tasks. The forecasting party shall:

- Provide the relevant TSO with the information necessary for provision to network users under BAL. This includes inputs and off-takes on the distribution system, even if it is not in the balancing zone⁹
- Work with the TSO and DSO to define the information, its format and the procedure for the TSO to give it to network users¹⁰
- At the request of the NRA, propose an incentive mechanism regarding the provision of an accurate forecast for a network user's non daily metered off-takes¹¹
- Be responsible for forecasting a network user's non daily metered off-takes and where appropriate its subsequent allocation¹²
- Provide the TSO with forecasts (in a manner set out in BAL) of a network user's non-daily metered off-takes and subsequent allocations consistent with the information requirements set out in BAL Articles 36 and 37¹³
- Publish a report on the accuracy of the forecast of a network user's non daily metered off-takes at least every two years.¹⁴

⁶ See Article 8(6) of the Gas Regulation for the areas required to be covered by network codes.

⁷ Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.091.01.0015.01.ENG.

⁸ Article 39(5) of Gas Balancing of Transmission Networks Network Code

⁹ Article 39(1) of Gas Balancing of Transmission Networks Network Code

¹⁰ Article 39(2) of Gas Balancing of Transmission Networks Network Code

¹¹ Article 39(4) of Gas Balancing of Transmission Networks Network Code

¹² Article 39(5) of Gas Balancing of Transmission Networks Network Code

¹³ Article 42(1) of Gas Balancing of Transmission Networks Network Code

¹⁴ Article 42(3) of Gas Balancing of Transmission Networks Network Code

Potential parties that could be designated as the forecasting party for the GB balancing zone

As noted above, BAL states that the forecasting party may be a transmission system operator, distribution system operator or a third party.

In GB that means that the forecasting party may be NGG (as operator of the NTS). It may also be one of the Gas Distribution Networks (GDNs). There are eight GDNs, each of which covers a separate geographical region of GB. The eight networks are maintained by the following companies:

- NGG – East Midlands, West Midlands, North West England and East of England (including North London)
- Northern Gas Networks Limited – North East England (including Yorkshire and Northern Cumbria)
- Wales & West Utilities Limited – Wales and South West England.
- Scotia Gas Networks Limited – Scotland and Southern England (including South London).

In addition there are a number of smaller networks owned and operated by Independent Gas Transporters (IGTs). These are located within the areas covered by the GDNs.

The forecasting party may also be a third party.

Our current view

At present, we consider that NGG is the most appropriate entity to be designated as the forecasting party in GB for the following reasons:

1. NGG is a designated TSO in GB in accordance with section 8J(2) of the Gas Act 1986.¹⁵ NGG therefore falls within the categories of the parties that BAL states can be designated as a forecasting party.
2. We consider that, while there has not previously been a requirement for the NRA to designate the forecasting party in GB, provisions already exist in the UNC that mean that NGG already performs the duties of the forecasting party, such as:
 - Transportation Principal Document Section H 1.6.1¹⁶: "*For the purposes of development of End User Categories and Demand Models and where the relevant Sub-committee determines so the Transporter (other than National Grid NTS) will obtain data (which may, subject to paragraph 1.1.1, include estimates of missing data) as to daily off-takes of gas at the Supply Meter Points comprised in a sample of NDM Supply Points in each relevant LDZ.*"
3. We note that NGG owns and operates four of the eight GDNs in addition to the NTS. We note that the GDNs operate on a regional basis and so no single GDN has remit to cover the whole of GB. We consider therefore that no one single GDN would be able to fulfil the duties of the forecasting party across the whole of the GB balancing zone as effectively and efficiently as NGG.
4. NGG already has the appropriate systems and other infrastructure to fulfil the role. Therefore, we consider this to be the least cost/least impact way of ensuring compliance with the BAL Article 39(5) requirement for the NRA to designate a forecasting party for the GB balancing zone.

¹⁵ Ofgem certification decision for National Grid Gas plc (<https://www.ofgem.gov.uk/publications-and-updates/certification-decision-national-grid-gas-plc>)

¹⁶ The UNC Transportation Principal Document is available on the Joint Office of Gas Transporters (JoGT) website: <http://www.gasgovernance.co.uk/TPD>

5. We are not currently aware of any third parties that are in a position to fulfil the duties of the forecasting party.

Uniform Network Code Modification 489 (UNC489)

NGG has proposed UNC489¹⁷ in order to implement the changes to the UNC required to reflect the requirements of BAL Articles 36(1), 37(1) and 42(3). On 21 August 2014, the UNC Panel submitted the final modification report (FMR) on UNC489 to the Authority for a decision on whether or not the proposed changes to the UNC should be made.¹⁸

Article 42(3) of BAL states that "A report on the accuracy of the forecast of a network user's non daily metered off-takes shall be published by the forecasting party at least every two years."¹⁹ Under the provisions of UNC489 NGG has proposed that it will prepare an accuracy report in accordance with BAL Article 42(3), which is one of the tasks of the forecasting party.

We do not consider that we can determine whether or not to approve UNC489 until we have fulfilled the BAL Article 39(5) requirement for the NRA to "designate the forecasting party in a balancing zone after prior consultation with the transmission system operators and distribution system operators concerned".

As set out above, subject to any responses to this consultation, our current view is that NGG is the most appropriate party to be designated as the forecasting party for the GB balancing zone. If NGG is designated as the forecasting party then we would also be minded to approve UNC489. If, however, another party is designated as the forecasting party, we will be obliged to reject UNC489.

Responding to this consultation

Ofgem would like to hear the responses of interested parties in relation to the view set out in this letter. In particular, we would appreciate views on:

Question 1: Do you agree with Ofgem's current view that NGG is the most appropriate forecasting party (as defined in BAL Article 39(5)) for the GB balancing zone?

Question 2: Is there any other party that Ofgem should consider designating as the forecasting party for the GB balancing zone in accordance with BAL Article 39(5)?

Question 3: If the answer to question 2 is yes – please set out which party you consider should be designated as the forecasting party for the GB balancing zone and why.

Responses should be received by 11 December 2014 and should be sent to jessica.housden@ofgem.gov.uk, or alternatively to:

Jessica Housden
Wholesale Markets Policy
Ofgem
9 Millbank
London
SW1P 3GE

¹⁷ UNC modification proposals, modification reports and representations can be viewed on the JoGT website at www.gasgovernance.co.uk

¹⁸ As set out in Special Condition 9(10)(b) of the Gas Transporters Licence, see: https://epr.ofgem.gov.uk/Content/Documents/Gas_transporter_SLCs_consolidated%20-%20Current%20Version.pdf

¹⁹ Article 42(3) of Gas Balancing of Transmission Networks Network Code

Unless marked confidential, all responses will be published by placing them on our website at 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. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.

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.

Any questions about this letter should, in the first instance, be directed to Jessica Housden (jessica.housden@ofgem.gov.uk or 020 7901 7254).

Yours sincerely,



Rob Mills,
Interim Associate Partner, Wholesale Markets