

Modification proposal:	<b>Uniform Network Code (UNC) Modification 0489: EU Gas Balancing Code - Information Provision changes required to align the UNC with the EU Code (UNC489)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	30 January 2015	Implementation Date:	1 October 2015

## Purpose of the document

This decision document has two purposes. First, it sets out our decision on UNC489. This is done in the first part of the decision document. Second, it provides notice of our decision to designate National Grid Gas plc (NGG plc)<sup>3</sup> as the forecasting party for Great Britain's (GB's) balancing zone (as required by the Network Code on Gas Balancing of Transmission Networks<sup>4</sup> (BAL)). This is set out in the last part of the decision document.

## Background to the modification proposal

The final report of the European Commission's sector inquiry into competition in gas and electricity markets (published in January 2007)<sup>5</sup> noted (amongst other things) the lack of effective competition in European gas and electricity markets.

In response, a suite of legally binding European Union (EU) legislation, referred to as the Third Package<sup>6</sup>, 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.<sup>7</sup>

The Third Package created a new legal framework to promote cross-border trade in gas and electricity. It requires a number of legally binding Guidelines and 'Network Codes' to be established and implemented.<sup>8</sup> Taken together, these aim to promote liquidity, improve integration between Member States' gas and electricity markets and promote the efficient use of interconnectors to ensure that gas and electricity flows according to price signals, ie. to where it is valued most.<sup>9</sup> These EU legislative requirements take priority over GB domestic legislation and associated regulations and codes, including the UNC.

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> National Grid Gas plc, NGG plc, (Company number 200600) holds a number of different licences. The part of NGG plc's business that operates the National Transmission System (NTS) is National Grid Gas Transmission (NGGT) as confirmed by NGGT. We note that NGGT will be the NGG plc business that will carry out the activities of the forecasting party in practice.

<sup>4</sup> 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/PDF/?uri=CELEX:32014R0312&from=EN>

<sup>5</sup> <http://ec.europa.eu/competition/sectors/energy/inquiry/>

<sup>6</sup> 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").

<sup>7</sup> The Electricity and Gas (Internal Markets) Regulations 2011 (SI 2011/2704)

<sup>8</sup> Article 6 (Establishment of network codes) of the Gas Regulation sets out the process for establishing EU wide network codes for gas.

<sup>9</sup> See Article 8(6) of the Gas Regulation for the areas required to be covered by network codes.

One such Network Code is 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. BAL requires the use of non-discriminatory and transparent balancing systems, which are of particular importance for new market entrants.

Much of BAL closely reflects the existing GB balancing regime set out in the UNC. However, there are some provisions which differ to the current UNC provisions, and so certain changes to the GB balancing regime must be made in order to fully comply with the Third Package legal requirements. One area where there are BAL provisions which need to be reflected in the GB regime relates to the information that Transmission System Operators (TSOs), which includes National Grid Gas Transmission (NGGT) as operator of the National Transmission System (NTS)<sup>10</sup>, must provide to users (“the information provisions”). The specific provisions of BAL that need to be implemented are detailed in the section below.

In addition BAL requires Ofgem to designate a forecasting party after prior consultation with the TSOs and distribution system operators concerned.<sup>11</sup> A forecasting party is to be responsible for forecasting a network user’s non daily metered off-takes and, where appropriate, its subsequent allocation. On 13 November 2014, we published a consultation on a proposal to designate National Grid Gas (NGG)<sup>12</sup> to be the forecasting party for the GB balancing zone.<sup>13</sup> The latter section of this decision document sets out our conclusions from that consultation and our decision to designate NGG plc as the forecasting party.

### **The modification proposal**

UNC489 was proposed by National Grid Gas Transmission (NGGT)<sup>14</sup>. It seeks to implement three changes to the UNC to facilitate its compliance with the information provision requirements set out in BAL. These proposed changes (to the UNC Transportation Principal Document (TPD) Sections E and H) are:

#### **1. An additional Non-Daily Metered Allocation (NDMA) forecast is to be published by the day before the gas day (ie D-1) 12:00**

BAL requires that, where the information model base case is applied<sup>15</sup>, the TSO shall provide network users with a forecast of their non daily metered off-takes for gas day D no later than 12:00 Coordinated Universal Time (UTC) (winter time) or 11:00 UTC (daylight saving) on D-1.<sup>16</sup> At present, NGGT does not provide such a forecast at

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<sup>10</sup> See footnote 3.

<sup>11</sup> Article 39(5) of The Gas Balancing of Transmission Networks Network Code.

<sup>12</sup> We referred to National Grid Gas (NGG) in our consultation to mean the entity which operates the National Transmission System (NTS). As set out in footnote 3, National Grid Gas plc holds the NTS licence and, for the avoidance of doubt, it is National Grid Gas plc that we are designating to be the forecasting party. We do not consider this to be a material difference that merits consulting again on this issue.

<sup>13</sup> Our consultation is published here: <https://www.ofgem.gov.uk/ofgem-publications/91310/forecastingpartyconsultationdocument.pdf>. It closed on 11 December 2014.

<sup>14</sup> See footnote 3.

<sup>15</sup> The model base case is the standard model for information provisions where the information on non daily metered off-takes consists of a day ahead and within day forecasts. BAL allows for two possible variants on the model base case for information provision. NGGT propose using the model base case.

<sup>16</sup> Article 36(1) of BAL. Note that while BAL quotes time in Coordinated Universal Time (UTC), in this decision document we refer to the equivalent local times for ease of reference.

12:00 local time on D-1. The proposer considers that this proposed new forecast, in addition to the existing three NDMA forecasts already published on D-1 (all of which occur after 12:00 UTC), represents the lowest-impact route to secure compliance with the BAL requirements.

## **2. An NDMA Accuracy Report to be published annually for each Gas Year**

BAL requires the forecasting party to publish a report on the accuracy of the NDM off-take forecasts provided to network users by the forecasting party at least every two years.<sup>17</sup> The proposer believes that publishing such a report every year is more beneficial to users.

## **3. Change the timing stated in TPD E1.6.2 to provide the initial allocation data and the initial imbalance quantity before the end of the first day after the gas day (D+1)**

BAL requires the TSO to provide each network user with an initial allocation for its inputs and offtakes on gas day D and an initial imbalance quantity before the end of the first day after the gas day (D+1).<sup>18</sup>

### **UNC Panel<sup>19</sup> recommendation**

At its meeting of 21 August 2014, the UNC Panel: (i) considered the workgroup report on UNC489 and the four responses to the industry consultation; and, (ii) voted whether to recommend implementation of the modification proposal. The UNC Panel voted unanimously to recommend implementation of the modification on the basis that it better facilitates UNC Relevant Objective (g). UNC Relevant Objective (g) refers to the compliance with the Regulation<sup>20</sup> and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

### **Our decision on UNC489**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 August 2014. We have considered and taken into account the responses to the Joint Office's consultation on the modification proposal, which are attached to the FMR<sup>21</sup>. We have concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>22</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>23</sup>.

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<sup>17</sup> Article 42(3) of BAL.

<sup>18</sup> Article 37(1) of BAL.

<sup>19</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>20</sup> The Regulation means Regulation 2009/715/EC of the European Parliament and of the Council of 13 July 2009 concerning conditions for access to the national gas transmission networks and repealing Regulation 2005/1775/EC.

<sup>21</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>22</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>23</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and

## **Reasons for our decision on UNC489**

Of the four respondents to the industry consultation, three<sup>24</sup> supported UNC489 and one provided comments. The response providing comments noted that the proposal better facilitates Relevant Objective (g) but will come at a cost to implement. We agree with the proposer, the UNC Panel and those respondents who commented that the modification proposal does better facilitate achievement of UNC Relevant Objective (g). Furthermore, the proposer has indicated that they consider the costs to implement this proposal will be minimal.

### ***Relevant Objective (g) 'Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators'***

As noted by the proposer, the UNC Panel and consultation respondents, UNC489 introduces changes which will align the UNC with the new EU requirements from BAL for information provision by the TSO to network users. These requirements are contained within a relevant legally binding decision of the European Commission (ie BAL). We therefore agree that implementation of UNC489 would better facilitate relevant objective (g) for this reason. We consider that the modification proposal is neutral in relation to the other relevant objectives of the UNC.

### ***Implementation date for UNC489***

The UNC489 FMR suggests an implementation date of 1 October 2015 so as to align with the relevant implementation deadline under BAL. We agree with this date to ensure compliance with BAL is achieved in a timely manner. We therefore approve UNC489 to take effect from 1 October 2015.

## **Decision notice**

**In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC489 'EU Gas Balancing Code - Information Provision changes required to align the UNC with the EU Code' be made to take effect from 1 October 2015.**

## **Designation of a forecasting party**

BAL requires the Authority (as the National Regulatory Authority (NRA) for GB<sup>25</sup>) to consult on and designate a forecasting party.<sup>26</sup> BAL requires the forecasting party to fulfil a number of tasks summarised below:

- 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 zone<sup>27</sup>

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are detailed mainly in the Gas Act 1986 as amended.

<sup>24</sup> NGGT, British Gas Trading Limited and EDF Energy.

<sup>25</sup> The Authority was designated the NRA for GB by section 22 of the Electricity and Gas (Internal Markets) Regulations 2011, which inserted section 3A into the Utilities Act 2000.

<sup>26</sup> Article 39(5) of BAL.

<sup>27</sup> Article 39(1) of BAL.

- Cooperate with the TSO and Distribution System Operators (DSOs) to define the information, its format and the procedure to ensure the TSO duly gives it to network users<sup>28</sup>
- At the request of the NRA, propose an incentive mechanism regarding the provision of an accurate forecast, meeting specified criteria, for a network user's non daily metered off-takes<sup>29</sup>
- Be responsible for forecasting a network user's non daily metered offtakes and where appropriate its subsequent allocation<sup>30</sup>
- 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 37<sup>31</sup>
- Publish a report on the accuracy of the forecast of a network user's non daily metered off-takes at least every two years<sup>32</sup>

### Our consultation

On 13 November 2014, we published a consultation in order to comply with our duties under BAL to consult relevant parties before designating a forecasting party. BAL allows for the forecasting party to be a TSO, a DSO or a third party.

Our view set out in that consultation was that NGG<sup>33</sup> was the most appropriate entity to be designated as the forecasting party as it is the TSO for GB. We said that NGG already performs a number of the duties of a forecasting party and it already has the appropriate systems and other infrastructure in place to fulfil this role. Furthermore, the other options available for forecasting parties (DSOs or a third party) were not considered appropriate. The DSOs operate on a regional basis and we noted that no single DSO would be able to fulfil the duties of the forecasting party across the whole of the GB balancing zone as effectively as NGG. We were not aware of any third parties that would be in a position to fulfil the duties of the forecasting party.

### Consultation responses

Our consultation closed on 11 December 2014. We received one response from NGGT. It supported our view in the consultation. It made a number of comments as summarised below:

- NGG plc has many licenses (both distribution and transmission) and the Ofgem consultation was not clear which NGG plc licensee should be designated as the forecasting party. It proposed that NGGT is the most appropriate licence holder to be the forecasting party.
- The UNC does not define a 'forecasting party' though NGGT acknowledges that Ofgem considers it already performs a number of the duties of the forecasting party.
- There may need to be a review of GB forecasting arrangements depending on the outcomes of two current projects (Project Nexus and the review of Xoserve Funding, Governance and Ownership) and to specify in the UNC the designated forecasting party and its role.

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<sup>28</sup> Article 39(2) of BAL.

<sup>29</sup> Article 39(4) of BAL.

<sup>30</sup> Article 39(5) of BAL.

<sup>31</sup> Article 42(1) of BAL.

<sup>32</sup> Article 42(3) of BAL.

<sup>33</sup> See footnote 12.

- Designating a party other than NGGT as the forecasting party would require Ofgem to reject UNC489 and this would be detrimental to implementing BAL by the required date of 1 October 2015.

### Our decision

We have considered the points raised by the consultation and decided that NGG plc should be designated as the forecasting party for the GB balancing zone.

### Reasons for our decision

We note that our consultation letter referred to NGG as the party we consider to be most appropriate to be designated as the forecasting party. We agree with NGGT that further clarification is required. NGG plc is the legal entity that is the NTS licence holder and the certified TSO so we consider that it should be designated as the forecasting party. This is because it already performs a number of the duties of a forecasting party, it already has the appropriate systems and other infrastructure in place to fulfil this role and we consider no other party to be appropriate for this role. We have received no other information to change our view or our reasons for that view as set out in our consultation. We note however that it will be the NGGT arm of NGG plc's business that will carry out the activities of the forecasting party in practice rather than other parts of its business that operate for example distribution networks.

### **Decision notice**

**In accordance with Article 39(5) of the Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a network code on gas balancing of transmission systems, the Authority hereby designates National Grid Gas plc as the forecasting party in the GB balancing zone.**

**Frances Warburton,  
Partner, Wholesale Markets**

Signed on behalf of the Authority and authorised for that purpose