

System Management Principles Statement Annual Consultation

Report by National Grid NTS March 2008

Summary

This report contains the outcome of the recent annual consultation exercise undertaken on the National Grid NTS System Management Principles Statement (SMPS).

The report and the preceding consultation have been prepared in accordance with Special Condition C5 of the National Grid NTS Transporter Licence.

Whilst this annual SMPS consultation is a requirement under its Licence, National Grid NTS did not propose any material changes to the prevailing SMPS version (2.3) that had been approved by the Authority on 9th June 2006. There is however one minor change that has been required due to the latest version of National Grid NTS Gas Transporter Licence being numbered slightly differently to the previous version. This is detailed in the conclusion of this document.

Attachments

The following appendices are included with this report:

- Appendix A SMPS Statement – Annual Consultation
- Appendix B SMPS Statement – Final proposal
- Appendix C SMPS Statement - Consultation responses

Background

System Management Principles Statement

National Grid NTS prepares an SMPS in accordance with Special Condition C5 of its Gas Transporter Licence. The purpose of the SMPS is to describe the broad principles and criteria by which National Grid NTS will assess and determine those system management services that would be used in specific circumstances. The SMPS replaced the Operational Guidelines that was prescriptive in its instruction and provided no basis for interpretation.

Views sought

A copy of the original consultation is included as Appendix A.

Views received

Two responses were received during the consultation period from Centrica Storage Limited and Centrica Energy.

The responses were not marked confidential and therefore are provided in full as Appendix C.

Summary of the responses received and the view of National Grid NTS

The response from **Centrica Energy** did not comment on the content of the SMPS but instead raised a number of peripheral issues including;

- Information Transparency
- Audit of National Grid actions, and;
- Governance of the SMPS.

National Grid NTS view;

National Grid NTS would like to thank Centrica Energy for its response to this annual NTS SMPS consultation and we acknowledge the comments put forward. We would wish to provide our view on the content of the Centrica Energy response as follows;

Centrica Energy did not raise any particular issues or comments concerning the content of the SMPS, therefore we are not proposing any changes to the document as a result of the Centrica Energy response. We do however offer the following comments with regard to the issues raised by Centrica Energy;

Transparency

National Grid NTS have worked hard in recent years to improve the transparency of data associated with its operations and the GB gas market. We now have a level of transparency and system functionality which has been widely praised and which we believe stands comparison to any other gas network operator in Europe. That said we are not complacent and are always open to discussing how and where further improvements can be made. With this in mind, in 2007, National Grid NTS raised UNC Review Proposal 0140 to examine the whole issue of data publication and transparency. In its SMPS response Centrica Energy has not been specific about the particular data that it would like to be made available but its representatives on the UNC 0140 review group raised similar issues and floated the idea that system pressures could be made available by National Grid NTS. At the time a majority of members of the review group, including ourselves, suggested that publishing system pressures could lead to undesirable consequences such as an increase in buyback actions and hence an increase in system operating costs. National Grid NTS has not changed its view on this issue but is always willing to support further data publication where a clear benefit can be shown.

Audit Process

National Grid NTS operations are subject independent audits to ensure compliance with the SMPS and Procurement Guidelines. It is difficult to see how the scope of this audit could effectively be broadened to encompass the effects of National Grid NTS actions on the market. The SMPS provides a set of guiding principles that will be applied in the vast majority of circumstances. At all times, the Uniform Network Code and National Grid NTS's other statutory obligations, for example, its Licence conditions to operate in an economic and efficient manner, and adherence with its Safety Case will take precedence over the principles set out in SMPS.

As set out in the SMPS, on the rare occasion that National Grid NTS system management activity is not taken in accordance with the Statement, then such action is subject to scrutiny through an independent audit and report to the Authority and wider industry. We continue to believe that given the rare occurrence of such deviation, the existing arrangements are appropriate and afford the best opportunity for National Grid NTS to respond effectively to its Licence obligations and incentives thus providing benefits to all System Users.

With regard to the suggestion that the audit should "also highlight to Ofgem any areas of operation which might bring into question National Grid's compliance with its licence", in effect this already happens and again falls outside of the remit or designed purpose of the SMPS.

Governance

Centrica Energy suggest that the SMPS should be subject to modification by Users. This in our opinion could lead to the SMPS becoming out of sync with the UNC and/or Licence which it is designed to compliment. The SMPS is updated as necessary as and when a modification to the UNC is implemented. Any SMPS changes are subject to a consultation process and, of course, UNC modifications can be proposed by any User and in some cases 3rd parties.

The response from **Centrica Storage Limited (CSL)** contained a specific suggestion that the SMPS should be amended to require that the use of other system management tools in order that a terminal flow advice (TFA) can be lifted as soon as possible. National Grid NTS would like to thank CSL for its response to this annual NTS SMPS consultation and we acknowledge

the comments put forward. We would wish to provide our view on the content of the CSL response as follows;

TFA's are issued as advise to terminal operators to curtail flows in order to avoid the NTS breaching its Maximum Permitted Operating Pressure (and causing them to do the same). As such their application or revocation will be applied prudently and cautiously by National Grid NTS to ensure all parties are safe. TFA's do not provide National Grid NTS a "free option", as suggested in the CSL response, since if they are likely to result in us being unable to meet our end of day capacity obligations we have a strong incentive to take the appropriate commercial action (i.e. scaleback or buyback) or face potential compensation claims (as defined in UNC) from affected Users.

The timing of the TFA lifting is based upon forecast pressures rather than actual pressures therefore it is possible to describe a situation where pressures may be falling but if the flow was allowed back on pressures would start rising again and you would be in a cycle of TFA, lift, TFA, lift etc. Clearly a careful judgement is required on the part of National Grid NTS to avoid this undesirable situation. The SMPS should not restrict this judgement and therefore no change to the current version is proposed as a result of the CSL response.

Conclusions and Final Proposals

National Grid NTS would like to thank both respondents for their responses to this consultation and we acknowledge the comments that have been put forward.

Since issuing the consultation National Grid NTS has realised that there was an incorrect licence reference in the Glossary on page 24. This has now been corrected and "Special Condition C8B part 2 14 (9) (h)" has been replaced with "Special Condition C8F (3) (i)".

National Grid NTS does not believe that this represents a material change and therefore recommends that with this exception the version of the SMPS that it consulted upon should be approved by the Authority with an effective date of 1st April 2008. The proposed version is provided in Appendix B.