

# Gas Markets Newsletter

Issue: 14  
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## Welcome

Welcome to our first newsletter of 2023 and our first as National Gas Transmission (NGT)!

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## A Message from Chris Logue – Head of Markets

As an industry we've had a very busy few months as we prepared for the current winter and continue to manage the fundamental changes to the market following Russia's invasion of Ukraine. As discussed in November's newsletter, the markets team at NGT have supported efforts to improve the UK's security of supply and are continuing to do so with the development of further Demand Side Response (DSR) arrangements. Transmission charging also continues to be a topic that generates a lot of interest and one that we have been further engaging with industry. We have held [webinars](#) in December 2022 and February 23 about our Non-Transmission Charges and will shortly be publishing an industry discussion paper aimed at evaluating options to reduce the issues created by legacy "existing" capacity contracts.

Amongst the many engagements that we have as a team, it is important that we maintain a constructive relationship with Ofgem. With this in mind we recently hosted a visit from Ofgem to our office in Warwick where we were able to give an overview of our business and the control

room. A wide range of topics were discussed, including DSR, ongoing issues at Milford Haven and Charging arrangements. More detail on these topics is included in this newsletter.

[Chris Logue](#)

## Supporting Security of Supply

### Demand Side Response (DSR)

In response to customer feedback, reforms were implemented for this winter which aimed to increase the volumes of DSR that would be available if conditions of supply shortage were experienced. UNC Modification [0822](#) introduced a tender process for shippers to secure DSR option payments in return for which they would offer DSR on behalf of consumers at times when it is needed. This Modification also expanded the circumstances in which DSR could be called for to include when a Margins Notice is in force as well as a Gas Balancing Notification. UNC Modification [0833](#) enabled shippers to participate in the DSR options tender that do not have access to the On-the-day Commodity Market. We received and accepted two DSR option offers from the first tender which closed out just before Christmas, yielding ~0.2 mcmd of DSR volume for the remainder of the 2022/23 winter. We also received one expression of interest in a longer lead-time D-5 product and decided that this was not sufficient to warrant raising a further urgent Modification to put rules for a D-5 product into the UNC that could have enabled its acceptance.

Consumer feedback suggests that this level of participation is not reflective of the willingness and ability of large industrial sites to offer gas DSR and that greater volumes could be secured if further reforms to DSR products and procurement mechanisms could be made which currently constitute barriers to participation. Therefore, in early February we raised a new UNC Request proposal [0835R](#) which will form the governance around progressing further gas DSR discussions with industry. Within this Request, we plan to explore 4 workstreams: NGT contracting with gas consumers directly (rather than via the shipper) for DSR, a longer lead-time product such as D-5, eligibility of sites to participate and how aggregation might operate and also to review the reforms that were implemented for this winter. This will enable discussion of the issues before any subsequent UNC Modification(s) is raised ahead of 2023/24 winter.

For more details, please contact [Phil Hobbins](#).

### BBL Enhanced Pressure Service & Increase to Maximum Exit Offtake Rate

As part of the Winter 2022/23 preparedness activities and amid the changing geo-political landscape, NGT raised the urgent UNC Modification [0814](#). This would allow BBL, one of the Interconnectors connecting Great Britain with Continental Europe, to gain access to the enhanced pressure service and increase their Maximum NTS Export Offtake Rate (MNEPOR) on a temporary basis until the end of September 2023. The aim of the Modification is to enhance both Great Britain's and Continental Europe's Security of Supply by supporting the filling of storage stocks in Continental Europe during the Summer months, when our demand is lower. This would reduce the likelihood of sustained periods of exports during the Winter months when our gas demand is higher.

Gaining access to the enhanced pressure service would allow BBL to request enhanced export pressures from 55 bar – 68 bar which is typically achieved by running the Kings Lynn compressor. As a result of gaining access to the enhanced pressures, it would increase their export capability by approximately 6 mcm a day if maximum export pressures are maintained.

Ofgem announced on Monday 6<sup>th</sup> March that they have [approved](#) UNC modification 0814. In their decision letter, Ofgem highlighted their agreement with NGT that as this is an enabling modification, its focus was correctly on the contractual changes required to facilitate BBL to gain access to the enhanced pressure service and increasing their MNEPOR, rather than daily management of operational risks associated with potentially increasing gas flow rates. Ofgem highlighted that by approving the modification it will ensure a “level playing field” between INT, BBL and their users which will promote competition.

Overall, NGT are pleased with the outcome and are currently progressing the relevant implementation activities which would allow the contractual changes to take place.

For more details, please contact [Matt Newman](#).

## Gas Charging Arrangements

### General Non-Transmission Services Charges

Thank you to those that attended and engaged with us at our recent webinar on 27 February. We provided an update on Non-Transmission Charges, including proposals to address impacts predominantly driven by high and volatile shrinkage costs. The presentation [material](#) and recording of the [webinar](#) are available to view on the NGT [website](#) and further discussions on the topic will continue through [NTSCMF](#).

### St Fergus: NSMP Terminal Compression

The feedback provided in our recent consultation has been collated and responses have been issued via our Consultation Response published on the [St Fergus pages](#) of the NGT website.

This feedback informed the development of our Final Option Selection Report which was submitted to Ofgem at the end of January. A redacted version of the document can be viewed on our [RIIO-T2 Re-opener Application Pages](#).

Ofgem will consider the submission and a consultation will be issued for the next round of industry input.

### Introducing additional flexibility to change the NTS large price step for Ascending Clock Auctions at IPs

In September 2022 NGT raised UNC Modification [0832S](#) (Introducing additional flexibility to change the NTS large price step for Ascending Clock Auctions at IPs), with the purpose of improving Ascending Clock Auctions for IP Capacity by providing additional flexibility to change the percentage of the Reserve Price used to determine the NTS large price step when it is deemed appropriate to do so. UNC Panel are expected to make a decision on whether to approve this Modification when they meet on 16 March 2023.

## Gas Charging Discussion Document 13

Existing Contracts are Long Term Entry Capacity which was allocated before the introduction of the EU Tariff Network Code (TAR NC) on 6 April 2017. At the simplest level, they retain the price applicable at the time of booking, offering protection from the prevailing capacity rates and an exemption from any Transmission Services Entry (Capacity based) Revenue Recovery charges. However, these protected prices have an upward influence on the prevailing capacity rates applicable to all New Capacity.

UNC Modification [0790](#) was proposed as a means to address these price impacts by introducing a new commodity charge, levied on Entry flows (with an exclusion for Storage and Interconnectors). Ofgem decided not to implement UNC modification 0790 but stated in their [response](#) that they “expected industry to bring forward a new modification proposal to address existing contracts as soon as possible, in line with the legal analysis set out in this decision.”

Following informal discussions on the topic at NTSCMF, GCD13 is the first formal step towards further exploring the issues, with the potential for a new Modification to be raised following completion of the discussions if it is deemed necessary.

A draft document was shared at [February’s NTSCMF](#) and work is now underway to incorporate the additional information requested during that discussion with a view to publishing the document formally on the [National Gas Transmission](#) website. We will follow this with an extended consultation period to give the wider Industry an opportunity to comment on the potential solutions presented before assessing the next steps based on your feedback.

### Industry Stakeholder Engagement

NGT will continue to engage industry stakeholders using the NTSCMF, NGT led webinars (where required), relevant publications and material on our website to share charging related updates and provide the opportunity to discuss outputs.

For more details, please contact [Colin Williams](#).

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## Capacity Methodology Statement Review

### Milford Haven and Entry Capacity Release Methodology

In December 2022 we [proposed changes](#) to Entry Capacity Release (ECR) Methodology Statement to restrict the release of entry capacity at the Milford Haven ASEP in the period between May and September 2023.

Even though the high LNG flows have not materialised in summer 2022 where similar restrictions were in place, we believe that there are additional reasons that the risk of high constraint costs will persist into summer 2023. It is our view that it is reasonable to anticipate that the planned reduction in Norwegian summer supply will mean an increased number of LNG cargoes being delivered to GB when the additional supply is needed. Recognising the importance of LNG deliveries from a security of supply perspective, we are concerned that the increased Milford Haven flow potential and reduced summer physical capability of the network will increase the constraint risk and therefore impact our customers and consumers costs via constraint actions being required.

At the back of the industry feedback received in the consultation process, we [modified our proposal](#), to more closely align the quantity of entry capacity made available with the timeframes of likely Gassco outages impacting Easington supply. Due to the substantial changes made to the original proposal, we went out to consultation again in February 2023. The consultation period has now closed and we are currently reviewing all the feedback received.

For more details, please contact [Anna Stankiewicz](#).

### Capacity Substitution and Capacity Trade & Transfer Methodology Review

In February 2023 we commenced consultation on the Entry Capacity Substitution Methodology Statement (ECS), Exit Capacity Substitution Methodology Statement (ExCS) and the Entry Capacity Transfer & Trade Methodology Statement (ECTT). We consider changes to be housekeeping in nature only. The methodology statements can be found on our [website](#). Please go to the relevant section and '2023 annual review' folder. The consultation has now closed.

For more details, please contact [Kirsty Applebly](#).

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## Market Strategy Update

In the Market Strategy team, we produce a combination of thought leadership and critical thinking pieces on gas market evolution, as well as working on specific projects to deliver consumer value as the energy system evolves from today. We bring expertise in understanding current and future challenges to the gas markets and monitor policy change that may impact the gas markets both in the UK and in Europe.

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## Gas Market Plan (GMaP) Updates

Our focus for this year continues to be on three vertical themes of potential market change, including: hydrogen, hydrogen blending and natural gas, as well as several horizontal themes which cut across each stage of the transition: heat, power, industry, and transport.

### Hydrogen (full/100%)

The project on 'How the existing gas market commercial frameworks may need to evolve to accommodate [Project Union](#)' is now in the final report writing stages prior to publication.

The next stage of this project will be to undertake further detailed refinement of the commercial framework solution options for Project Union developed within this Hydrogen GMaP project, through seeking support from an economic consultant as well as a legal consultant. This next stage of work was included within the [National Gas Transmission \(NGT\) Project Union Feasibility Phase re-opener application](#). Ofgem is now consulting on the Project Union re-opener, with the minded to position (*consultation close 17 March 2023*) of a proposed allowance of £5.024M out of the NGT reopener for £7.912M. Currently, the funding for the commercial workstream has been disallowed. In our response to the consultation, we have welcomed the opportunity to provide further clarification on the commercial workstream, as we believe the undertaking of this work package in parallel to the technical development of Project Union is critical to the timely and optimal development of a commercial framework to enable Project Union.

## Hydrogen Blending

Following the Gas Goes Green '[Britain's Hydrogen Blending Plan.pdf](#)', NGT along with the Gas Distribution Networks are currently progressing two projects. The first project aims to explore a suitable physical roll out model for blending by assessing a strategic or free market approach, this also includes a review of the current capacity regime and how capacity could be allocated and managed for blended gas. The second project aims to provide a networks view of the changes required to the existing overarching regulatory pillars in order to enable hydrogen blending on both the transmission and distribution networks.

We are expecting that The Department for Energy Security and Net-Zero will make a decision this year on blending hydrogen into gas networks.

## Heat

In the last edition of this newsletter, we shared our progress on the 'Regional Differences in Heat' project. This aims to understand which regions across England and Wales might be best suited to hydrogen for domestic heating based on the regional prevalence of housing stock, and where these regions are in relation to where we expect the first hydrogen production and transmission infrastructure to be. This work is now ready to be published and will be shared on [our website](#) very soon. If you would like to find out more about this piece of work, please reach out to [Rosannah East](#).

The next project we are progressing in this space aims to look at the total system costs of delivering low carbon domestic heat, across a range of scenarios. A more detailed update on this work will be shared in the next edition of this newsletter.

If you would like to know more about the Gas Markets Plan please visit our website [here](#), or contact [Jen Randall](#).

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## Policy Updates

### UK Policy Update

2022 was a year of change and uncertainty and 2023 will be no different, we are expecting several major policy updates and milestones this year. Most importantly, following last year's comprehensive review of Net Zero by Chris Skidmore, [the report was published](#), setting out several recommendations for hydrogen policy. We expect the UK Government to respond to this by April 2023, setting out some amendments to their Net Zero Strategy.

So far, in February 2023 we have seen the UK Government reorganise BEIS (The Department for Business, Energy, Industry, and Industrial Strategy), creating a [new Department for Energy Security and Net-Zero](#). This year we are expecting several major consultations and consultation outcomes from the UK Government, including the outcome of a consultation on fairness and affordability, which will consider rebalancing environmental levies on energy bills. Currently, there are a number of live consultation which NGT are responding to, including:

- Improving Boiler Efficiency Standards (which includes boiler efficiency, hydrogen ready boilers and the role of hybrid systems)
- Scottish Government Draft Energy Strategy and Just Transition Plan
- Capacity Market 2023: strengthening security of supply and alignment with net zero
- UK Low Carbon Hydrogen Certification Scheme

- Welsh Government Just Transition to Net Zero Wales

## EU Update

Within a one-year window, we have seen the European gas flow patterns changing profoundly. Following the invasion of Ukraine, many stakeholders (re)discovered the importance of securing our energy supply and prepare systems to face different disruption scenarios. Together with record-breaking gas volumes sent from the UK, a [series of emergency measures](#) incentivising energy demand reduction and gas storage have helped the EU to enter this winter in a confident spirit. On 1<sup>st</sup> February, EU [gas storage capacities](#) were 71% full – the highest level ever while a year before, they reached the lowest level ever (36 %). The Market Correction Mechanism entered into force this month, aiming to avoid skyrocketing gas prices. ACER is [now publishing](#) the daily MCM reference price.

On the legislative front, the co-legislators are currently sharpening their positions on the [revision of the EU Gas rules](#). Once formally mandated by their respective institutions, negotiators from the Parliament and Council will meet with the Commission for trilateral talks in order to agree on a common landing zone, hopefully by next summer. Together with GIE, the Market Strategy team is monitoring the discussions of key aspects such as hydrogen blending, certification or cross-border tariffs. Additionally, we will closely follow in the coming months the discussions on new regulatory proposals, following the announcement of [new rules for the electricity Market Design](#) as well as a [Green Deal Industrial Plan](#).

We are also continuing a close dialogue with our European counterparts. In January, NGT hosted a stimulating meeting on the security of physical assets. Representatives from different energy ministries and European gas TSOs discussed how to better cooperate and exchange information to secure pipelines against threats. On 7<sup>th</sup> February, the 4<sup>th</sup> meeting of the EU/UK Gas TSOs Task Force took place in NGT premises. Emanating from the Trade and Cooperation Agreement, the Task Force is an important consultation & cooperation body aiming to facilitate an efficient and inclusive dialogue between EU and UK TSOs.

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## Gas Quality Update

### GS(M)R Review

The review of the gas quality specification within the GS(M)R (Gas Safety Management Regulations) is ongoing, with HSE considering responses to their consultation on proposals to change the regulations, and we expect the Government response to be published shortly. Among the proposals is a reduction in the lower limit for Wobbe Index and we have engaged with NTS entry and storage operators to determine the demand for making use of this change if it is implemented. We gathered views on the likely volumes of lower Wobbe gas that might materialise to inform a view about the extent of network penetration and hence which consumers that are sensitive to variation in gas quality might be impacted. This analysis was presented at Transmission Workgroup on 01 September 2022. If HSE decide to proceed with this proposal, we would expect to raise a UNC Modification to enable changes at the relevant terminals and set out suitable transparency arrangements.

For more details, please contact [Phil Hobbins](#).

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## Emergency Arrangements

### Payments for Involuntary Curtailment in an Emergency

SSE's Proposal to revise the method for determination of the payments made to consumers who are subject to involuntary gas supply curtailment during a Gas Emergency was [rejected](#) by Ofgem on 9th December 2022. In its decision Ofgem recognised the potential for the proposed change to dilute the incentives for parties to enter into voluntary curtailment arrangements.

The proposer had highlighted the specific risk to gas generators who would be subject to high electricity imbalance charges in the event of involuntary gas supply curtailment as a driver for its proposal. In respect of this, Ofgem also noted in its recent decision to approve changes to the electricity market arrangements such that gas generators will no longer be subject to those electricity imbalance charges if the imbalance is attributable to involuntary gas supply curtailment.

For more details, please contact [Phil Lucas](#).

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## Gas Markets New Team Members

Over the past few months, we have welcomed four new members to our team.

### Martin Cahill



Martin joined the Code Change team in November 2022 as a Senior Code Change Lead on a 12-month secondment. He is working on a variety of projects including EU Auction rules, improving the process for new biomethane connections to the NTS, Gemini Sustain Plus and Capacity/Balancing. Before joining the team Martin worked in the Operational Liaison Team; engaging with GSO's Customers & Stakeholders, and leading on the Gas Operational Forum held 8 times per year with Industry. His experience also includes working on the commissioning process for new connections, Maintenance & Access Planning, and Investment Delivery for projects.



### Ronan Haas



Ronan joined the Market Development Team in October 2022 as EU Market Strategy Lead. His responsibilities include building NGT's presence within Europe by maintaining a constructive relationship with EU stakeholders such as ENTSOG and GIE. Ronan is supporting the Joint Secretariat of the EU-UK Gas TSOs Task Force. He is also monitoring the evolution of the European policy landscape and sharing intelligence gained from the EU. Ronan studied EU Law and was previously working in Brussels for an energy sector association.

### Kirsty Appleby



Kirsty joined the Commercial Codes Change Team in November 2022 as a Code Change Lead. She is currently working on a variety of projects including the Entry Substitution, Exit Substitution and Trade & Transfer Capacity Methodology Reviews, updating UNC to reflect our new company name and Gemini Sustain plus. She is responsible for the Gas Markets Business Continuity Plan. Kirsty comes from a data analysis/ visualisation background within NGT and previously held change management and various analyst roles at Network Rail.

### Offordi Nabokei



Ofordi joined the Commercial Codes Change Team in March 2023 as a Code Change Lead. Ofordi has a background in law and has worked for the Department for Energy. Her experience also includes providing policy advice on a wide range of subject matters and drafting regulation for the Smart Energy Code.

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## Contact Us

We would love to hear from you! You can contact us by e-mailing:

[box.gsoconsultations@nationalgrid.com](mailto:box.gsoconsultations@nationalgrid.com)

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