national gas transmission

National Gas Transmission

Operating Margins Report

August 2023

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Version control

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1.0	17th August 2023	This document has been produced in accordance with Special Licence Condition 5.6 of National Gas Transmission plc, Gas Transporter Licence in respect of the National Transmission System (NTS).

Contents

1.0 EXECUTIVE SUMMARY

This document has been produced in accordance with Special Licence Condition 5.6 Part H of National Gas Transmission plc, Gas Transporter Licence in respect of the National Transmission System (NTS).

The purpose of this document is to provide an overview of National Gas Transmission (NGT) procurement activities used to secure Gas Operating Margins (OM) requirements which covers the following areas:

- OM requirement 2023/24
- Developments of the OM Service and procurement process
- OM Services procured for Gas Storage Year 2023/24 through the annual tender process
- Total 2023/24 OM Booking

2.0 BACKGROUND

This report relates to the OM Procurement event for Gas Storage Year 2023/24, that was conducted during Gas Storage Year 2022/23. Information relating to previous years events can be found at https://www.nationalgas.com/balancing/operating-margins-om under 'Market Information'.

NGT procures capacity and access to a volume of gas for OM on an annual basis in line with both the requirements of Section K of the Uniform Network Code (UNC) and the obligations detailed in the NGT Safety Case.

NGT monitors the OM position throughout the gas storage year and may make further capacity/volume bookings within year should a further requirement be identified.

The Gas OM Service enables the delivery of a change in the rate of gas flow to or off-taken from the NTS which manages sudden changes in supply or demand that cannot be met by normal trading/balancing arrangements. In addition, OM allows time for NGT to reconfigure the NTS or for the market to deliver additional supply and can protect against the need to declare emergency conditions to ensure normal commercial market operation can be maintained where possible. In the event of an emergency, OM can also be used to manage the safe and orderly rundown of the NTS.

From a regulatory perspective, under the RIIO-T2 regime all costs incurred for the procurement and utilisation of OM are a cost pass through element within the Licence. NGT aims to reduce the costs for customers whilst meeting the OM requirements for each year. The Office of Gas and Electricity Markets (Ofgem) have placed a reputational incentive scheme upon NGT to promote competition in the procurement of OM services for our customers.

Gas OM is procured via a suite of contracts with several gas industry participants around the NTS including capacity holders at storage facilities: large scale demand side users and capacity holders at LNG importation (with storage) facilities.

There was no OM utilisation during Storage Year 2022/23. Further information on Gas Operating Margins can be found on the Gas OM pages of the NGT website.[1]

3.0 OM REQUIREMENT

On an annual basis, NGT conducts an OM procurement event with an aim to optimise the OM requirement and maximise tender participation from a diverse range of market participants. NGT are continually exploring sourcing solutions that reduce barriers to entry and furthermore generate market awareness of the OM opportunities to the industry.

3.1 The OM Requirements Calculation Methodology

The approach supporting this year's methodology is consistent with that used for previous years and is detailed in the published Operating Margins Statement 2023/24.[2]

The methodology identified an initial OM volume requirement of 995 GWh when the Invitation to Tender was launched on 9th December 2022. Tender submissions received allowed for an alternative network compliant solution, when calculated led to a revised OM volume requirement of 948 GWh as published in the Operating Margins Statement on 1st March 2023. This is ~4% lower than 2022/2023 requirement of 989 GWh (including additional volumes procured through the Winter 2022/23 supplementary tender).

3.2 Communications Strategy

To maximise market participation in the annual OM procurement event, multiple communication channels are utilised to engage and educate market participants about the potential opportunities to provide a commercial service to NGT as the System Operator. This continued engagement is vital to both maintain existing OM service providers and to work with new market participants.

Building on previous engagement strategies, a structured approach to highlight our procurement requirements was adopted which included ad-hoc discussions with potential service providers that provided clarity of the OM service requirements. These were tailored to meet the needs of the individual parties, their level of knowledge and understanding of the tender process.

[1] https://www.nationalgas.com/balancing/operating-margins

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[2] https://www.nationalgas.com/gas-transmission/document/142431/download

4.0 OM SERVICE AND PROCUREMENT PROCESS DEVELOPMENTS

4.1 Process Learning and Feedback

As part of the continuing evolution of the OM procurement activities NGT routinely review any feedback received.

Below is a summary of the key learning points from the OM procurement event, the learning obtained will enable future OM product development and process improvement.

In particular, NGT notes:

Ahead of the 2023/24 tender, improvements were made to the OM contract framework, following internal review and acting on feedback from service providers:

- For LNG and Storage Agreements, revisions to the nomination clauses to increase the likelihood of a successful delivery at multi shipper sites where a provider is running at or close to max rate.
- Updates to the Early Termination definitions assisting in ensuring definitions are acceptable to all parties.
- Wording incorporated into clause 2 of the Parent Company Guarantee template to incorporate a cap on Service Provider's liabilities.

4.2 Developing the OM Requirements Calculation Methodology

Our OM requirements methodology remains under review as the environment in which NGT operate continues to evolve; this will ensure that NGT continue to further refine our definition of the requirements on the network going forwards.

NGT undertake a full annual review of the OM requirement based on the very latest supply and demand forecasts and operating experience. From a contestability perspective, this will allow NGT to identify geographical areas where the OM provision could be required / reinforced, and this will help to identify focus areas for potential service providers of OM services.

4.3 Service Providers' Engagement

To complement the broad communications strategy, NGT have targeted and will continue to target certain providers as being a priority to engage with. This will either be because they have commissioned a new site, expressed an interest in providing OM, participated in previous years' procurement events or have been identified as being strategically advantageous to fulfilling the OM requirement.

4.4 Reducing Barriers to Entry

NGT procure OM to adhere to its Safety Case and the associated requirements are based upon minimum response times, volumes, and availability criteria. Whilst these requirements provide considerable restrictions on the potential market size, NGT continue to look to simplify processes and reduce barriers to entry, where possible.

NGT continue to use the ARIBA Procurement platform to enhance and support an efficient and compliant tender process. Dedicated ARIBA support was made available to tenderers to provide ARIBA query resolution.

NGT continue to work on several areas of focus that are designed to identify where NGT can reduce the complexity of the contracting process.

4.5 OM Procurement Event Communications

Communications of forthcoming OM Procurement events to the market is primarily undertaken via the Energy Networks Association (ENA) on behalf of NGT. Interested parties are encouraged to subscribe with the ENA to receive future communications. NGT will also endeavour to send direct communications to parties who have expressed an interest in previous OM tenders.

5.0 OM SERVICES FOR GAS STORAGE YEAR 2023/24 PROCUREMENT EVENT

The level and geographical distribution of OM services determines the effectiveness of OM gas to balance the NTS during an OM event.

5.1 OM Requirements 2023/24

The initial OM requirements for 2023/24 storage year totalled 995 GWh ahead of tender launch. This assumed an NTS network solution including a distribution of OM services as typically offered in recent years.

The profile of the tender submissions allowed an alternative compliant network solution to be calculated, leading to a revised OM volume requirement totalling 948 GWh. Table 1 summarises this position by OM requirement category.

Table 1: OM Requirement Categories (figures may not sum exactly due to rounding)

Operating Margins Requirement Category	2023/24 Initial OM Requirements (GWh)	2023/24 Revised OM Requirements (GWh)
Supply Loss	484	518
Locational – South West	126	108
Locational – South East	90	41
Locational - North	0	0

Locational – Scotland	0	0
Locational - Wales	0	0
Non-Locational	243	229
Orderly Rundown	52	52
Total	**995**	**948**

5.2 Tender Participation

For 2023/24, 28 tender submissions were received from 16 unique participants. Chart 2 illustrates the level of participation compared to previous years. Chart 3 illustrates how the 28 tender submissions received were split between Capacity and Delivery arrangements.

Chart 2: Number of Offers and Participants

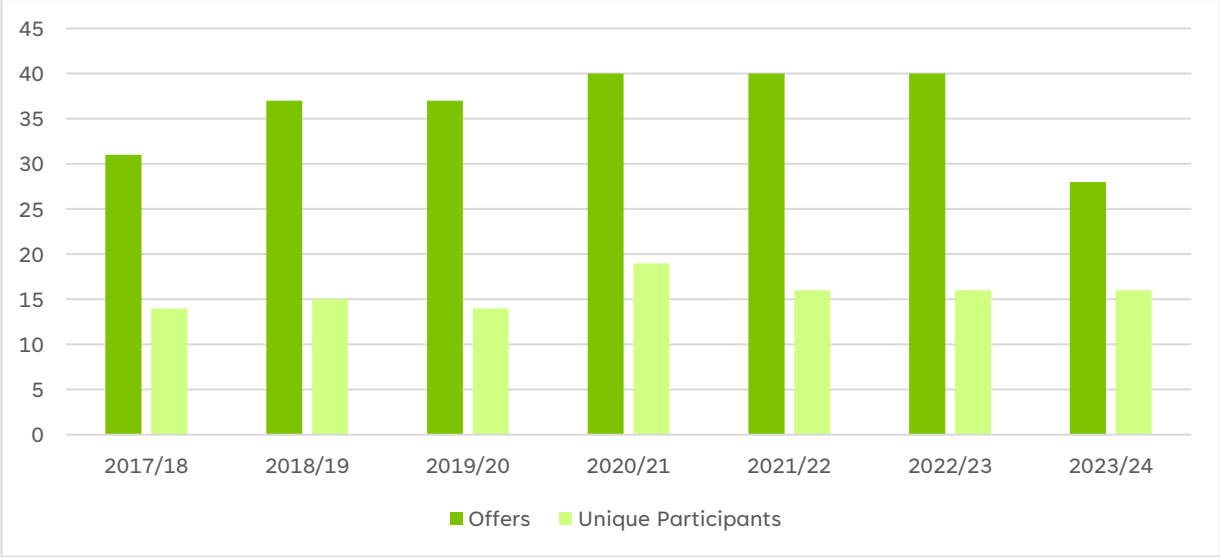
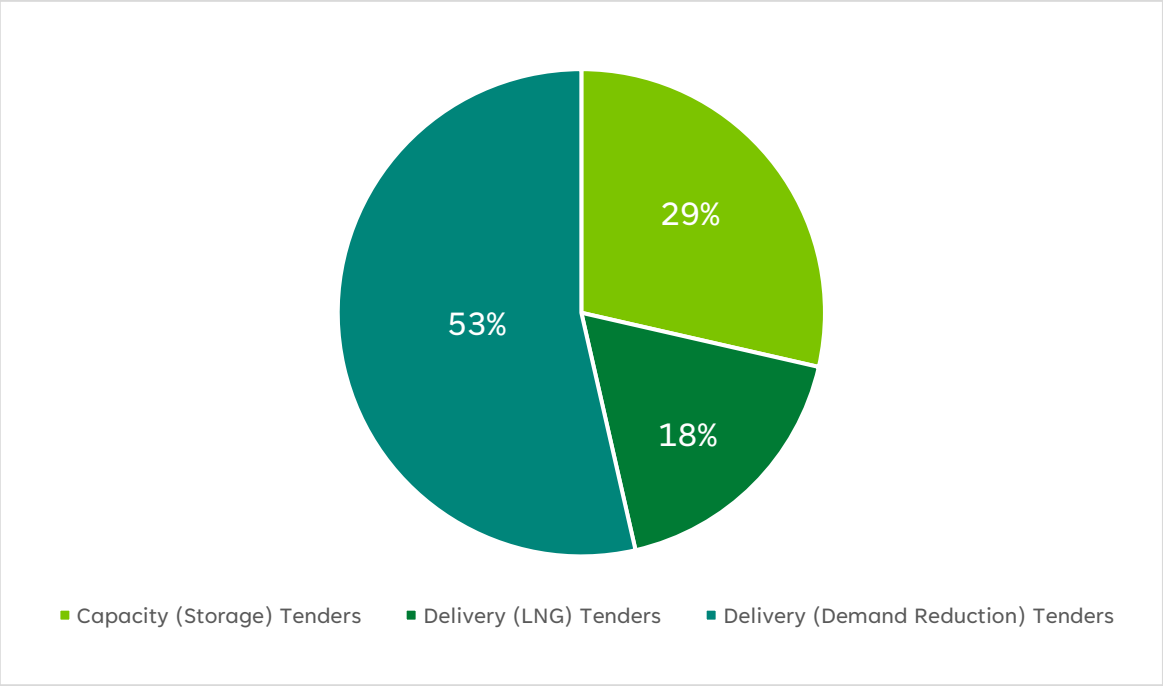


Chart 3: Tender Submission split by type, 2023/24



Out of the 16 unique participants in Chart 2, two participants submitted more than one tender submission across the various service provider category areas. Table 3 shows submissions by Service Provider category.

Table 3: Tender Submissions by Service Provider Categories (please note 2 participants submitted in multiple categories)

Service Provider Category	Number of Participants	Number of Tender Submissions
Storage	7	8
LNG	5	5
Demand Reduction	6	15
All Tender Total	**18**	**28**

Chart 4 – Number of Participants by Service Provider Category (note 2 participants submitted in multiple categories)

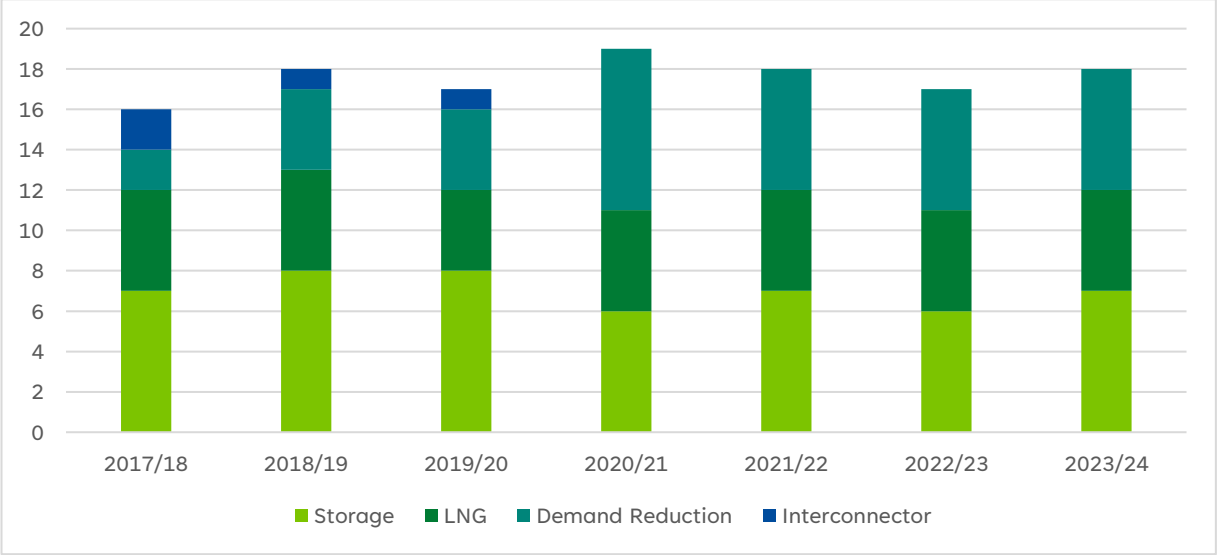
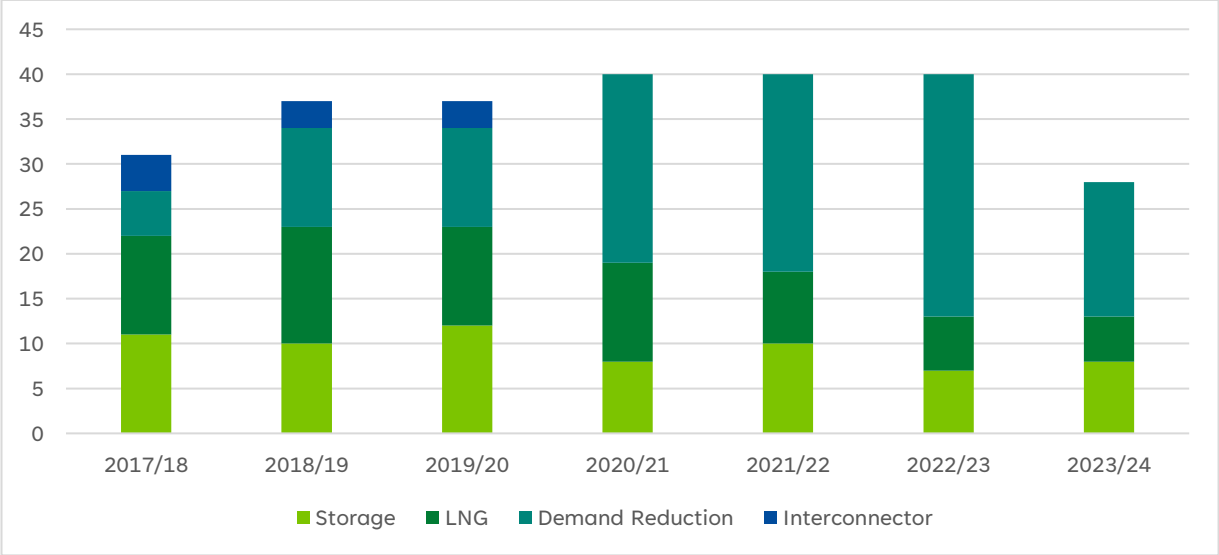


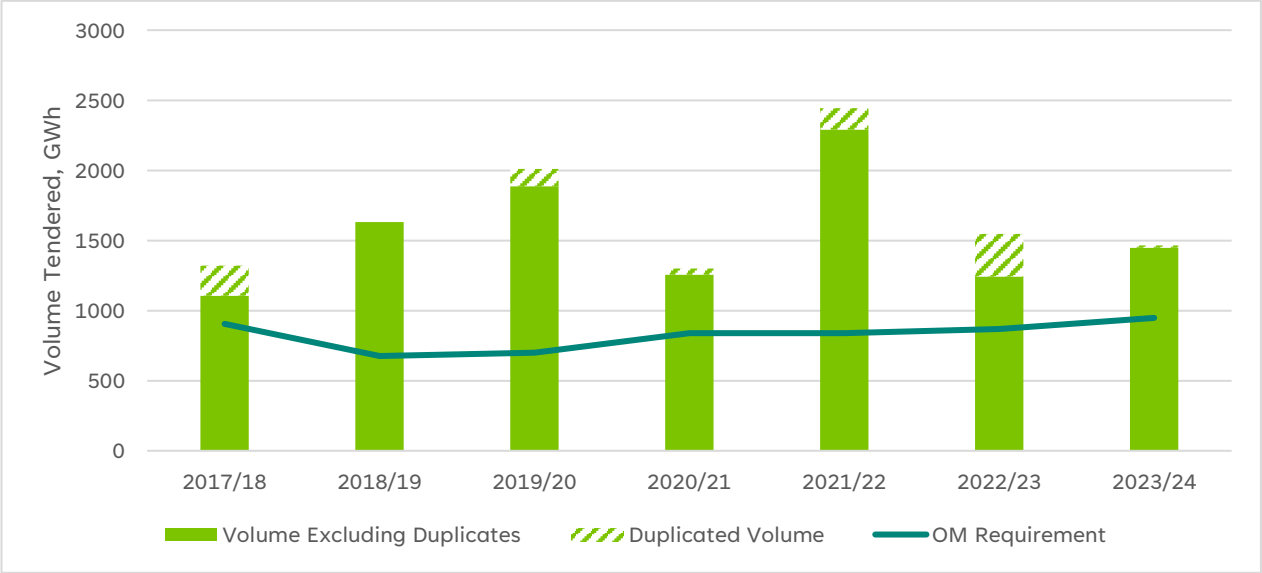
Chart 5 – Number of Tender Submissions by Service Provider



5.3 Tendered Volumes

Tendered volumes of 1,464 GWh (1,448 GWh excluding duplicated site volumes submitted by individual tenderers) were available for OM services for 2023/24. This is a decrease in tendered volumes compared to 2022/23, (1,546GWh) which is primarily due to the removal of the 'Winter Only' Tender Option first introduced for the 2022/2023 submission. However, if duplicated volumes are excluded the tendered volumes have increased between 2022/23 (1,243 GWh) and 2023/24 (1,448 GWh). Chart 6 shows tender volumes in recent years compared to the OM requirement.

Chart 6: Tendered Volumes vs OM Requirement



5.4 Prices and Acceptances

The criteria for acceptance is wider than cost minimisation and factors in Service Provider physical capability and effectiveness to deliver the OM service, whilst achieving a geographical diversity of the OM service.

Table 4 summarises key price metrics of market tenders received and accepted for the 2023/24 gas storage year through the annual OM Procurement Event

Table 4: Pricing Metrics

All Contracts

Contract Type	Weighted Average Tender Offered Price (p/kWh)	Weighted Average Tender Accepted Price (p/kWh)	Variance %
Storage	3.05	2.27	-26%
Power Station	2.39	2.33	-3%
LNG	6.37	6.37	-
All	3.26	3.19	-2%

5.5 Purchasing Activities and Exchange Trades

During Q2 2022, for Storage Year 2022/23, NGT procured 1,350,000 therms of OM gas via NBP trades at a weighted average price of 153.7p/th (5.2p/kWh).

During Q2 2023, for Storage Year 2023/24, National Gas Transmission procured 345,000 therms of OM gas via NBP trades at a weighted average price of 70.11/th (2.4p/kWh).

6.0 CONCLUSION

For 2023/24, the OM Service requirement has been procured at an estimated spend of £28.8m.

To encourage tender participation, NGT has proactively engaged with potential service providers and consulted with industry in respect of OM contract enhancements whilst ensuring a compliant tender process has been undertaken and delivered value for end consumers, against a challenging market landscape.

NGT will continue to monitor the OM position throughout the gas storage year and may make further capacity/volume bookings within year should a further requirement be identified.

7.0 GLOSSARY OF TERMS

Acronym	Term	Definition
ENA	Energy Networks Association	Energy Networks Association (ENA) represents the 'wires and pipes' transmission and distribution network operators for gas and electricity in the UK and Ireland.
NTS	National Transmission System	A high-pressure gas transportation system consisting of compressor stations, pipelines, multijunction sites and offtakes. NTS pipelines transport gas from terminals to NTS offtakes and are designed to operate up to pressures of 94 bar(g).
Ofgem	Office of Gas and Electricity Markets	The UK's independent National Regulatory Authority, a non-ministerial government department. Its principal objective is to protect the interests of existing and future electricity and gas consumers.
OM	Operating Margins	Gas used by National Gas Transmission to maintain system pressures under certain circumstances, including periods immediately after a supply loss or demand forecast change, before other measures become effective and in the event of plant failure, such as pipe breaks and compressor trips.
RIIO	Revenue=Incentives+Innovation+Outputs	Ofgem's regulatory framework is known as RIIO (Revenue = Incentives + Innovation + Outputs). The RIIO model offers network companies incentives for securing investment and driving innovation. This ensures the delivery of sustainable energy networks at the lowest cost for current and future customers. RIIO-T1 covers the 8 year period from April 2013 to April 2021 RIIO-T2 covers the 5 year period thereafter.
	Special Licence Condition 8C, National Gas Transmission plc, Gas Transporter Licence	The Gas Transporter Licence condition which sets out the obligations of the Licensee in respect of the procurement of its Operating Margins requirements and the provision of an Operating Margins Report.
UNC	Uniform Network Code	The Uniform Network Code is the legal and commercial framework that governs the arrangements between the Gas Transporters and Shippers operating in the UK gas market. The UNC comprises different documents including the Transportation Principal Document (TPD) and Offtake Arrangements Document (OAD).

Contact:

Richard Loukes
Senior Contract Officer
Commercial & Incentives
System Operation

T: +44 (0) 7342 085565
E: Richard.Loukes@nationalgas.com
nationalgas.com


national gas
transmission