

NATIONAL GAS TRANSMISSION

OPERATING MARGINS STATEMENT 2023/24

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**National Gas Transmission plc
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA**

Website:

<https://www.nationalgas.com/balancing/operating-margins-om>

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1 About this Document

National Gas Transmission procures a quantity of Operating Margins (OM) on an annual basis in line with both the Uniform Network Code (UNC)¹ and the obligations described in the National Gas Transmission Safety Case in respect of the NTS (our Safety Case). Our Safety Case places an obligation on National Gas Transmission to maintain OM at levels and locations determined throughout the year.

The OM service is used to maintain system pressures in the period before other system management services become effective (e.g. national or locational balancing actions). A further quantity of OM is also procured to manage the orderly run-down of the system in the event of a Network Gas Supply Emergency (NGSE) whilst firm load shedding takes place.

This document is published pursuant to National Gas Transmission's obligations under the UNC, which requires National Gas Transmission to publish the following information:

- The assumptions used in determining the OM Requirements
- The aggregate quantity of OM
- The maximum rate of deliverability required for OM
- The OM Profile

The terms and conditions of the UNC apply to the contents of the document.

The resultant OM booking also meets National Gas Transmission requirements to conform to its current Safety Case.

For information on OM, please see the website below:

<https://www.nationalgridgas.com/balancing/operating-margins-om>

Document issued by:

National Gas Transmission
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Richard Loukes (Tel: 07342 085565, Email: richard.loukes@nationalgrid.com)

John Cummins (Tel: 07825 659185, Email: john.cummins@nationalgrid.com)

¹ This document is published pursuant to National Gas's obligations under Part 2.2.3 of Section K of the Transportation Principle Document of the UNC.

2 Background Information

2.1 Use of Operating Margins

The criteria for the use of OM are set out in the System Management Principles Statement available at:

<https://www.nationalgrid.com/uk/gas-transmission/about-us/how-were-regulated/gas-industry-compliance>

2.1.1 Triggers for the use of Operating Margins

The triggers for the use of OM are as follows:

1. Primarily, OM will be used in the immediate period following operational stress such as a supply failure, unanticipated demand change or an unexpected pipeline and/or plant unavailability to maintain system pressures in the period before other balancing measures become effective.
2. Orderly Rundown requires a quantity of OM stock to ensure the safe rundown of the system in the event of a Network Gas Supply Emergency while firm load shedding takes place as required in our Safety Case.
3. OM will also be used to support system pressures within 24 hours following a compressor trip, pipe break, or other failure or damage to transmission plant. Following this period, any reduction in capacity resulting from the event becomes equivalent to a planned maintenance activity, and therefore is unlikely to be supported using OM.

2.1.2 Refilling of Operating Margins

If the volume of OM, at any point in the winter, falls below the monitor level calculated by National Gas Transmission at individual sites, National Gas Transmission may seek to refill OM to the extent of the published monitor where it is practical to do so.

2.2 Safety Case Operating Margins Requirements

In addition to meeting the UNC requirements, the OM booking must also satisfy the current Safety Case requirements. These are broadly similar and for reporting purposes the terminology used is consistent with the UNC definitions for OM.

3 Overview of the Operating Margins Methodology

National Gas Transmission has determined its OM requirement by consideration of all available storage facilities, LNG importation facilities, direct connected loads and supplies on the NTS.

National Gas Transmission procures OM services from storage and LNG importation facilities and their capacity holders as well as offtake reduction and supply increase services. To that end, National Gas Transmission has recently completed a tender to procure storage capacity and gas delivery offers.

This year's methodology is consistent with that used in the previous year, with the total booking being split between Group 1, Group 2 and Group 3 as defined in our Safety Case.

GROUP 1 – Supply failure and forecast demand change

GROUP 2 – Compressor failure and pipeline failure

GROUP 3 – Orderly Rundown

4 Assumptions used in the determination of Operating Margins

This section provides a detailed explanation of the calculation of the individual elements in the methodology.

4.1 Assumptions used in the Operating Margins calculations

1. Other storage, NTS compressors and pipelines have 100% availability (apart from the specific failure condition being considered).
2. Relevant facilities are modelled with a response within 2 hours from the next hour bar of an event being confirmed.
3. If operating conditions require OM stocks to be depleted they may be refilled² to the stock profile shown in Section 6.
4. The OM space requirement in each group is the highest OM space requirement of all the operating conditions at each location.
5. The aggregate group space requirement is the sum of the individual locational space requirements.

4.1.1 Operating Margins requirements for Group 1

The determination of the requirements for Group 1 includes assessment of the loss of the single largest impacting NTS Entry supply point to the NTS using historic and forecast data.

Group 1 OM requirement is calculated by network analysis of the system.

4.1.2 Operating Margins requirements for Group 2

The requirements for Group 2 include compressor failures and pipeline failures. The operating conditions have been grouped so that the OM volume and deliverability for this group will satisfy any of the operating conditions of the group individually but not necessarily simultaneously.

The Group 2 OM requirement is calculated by network analysis of the system with the most severe impacting scenario of compressor failure or pipeline failure being applied to the network and by using a range of analytical models using historic and forecast data.

4.1.2.1 NTS Compressor failure assumptions

1. Full compressor station failure will be considered.
2. The failed compressor station will be unavailable for use for at least 24 hours.

² This may need to be affected by transfer of gas in store if there is limited injection capacity.

3. Compressor reliability, running hours, asset age, location with respect to vulnerable areas of the NTS were factors considered when deciding the particular event to be analysed.

4.1.2.2 Pipeline Failure Assumptions

1. The failed section of pipeline will be unavailable for use for at least 24 hours.
2. Asset age, location with respect to vulnerable areas of the NTS, and overall impact of the pipeline failure were considered.

4.1.3 Operating Margins requirement for Group 3

Orderly rundown is OM stock to ensure safe rundown of the system in the event of a Network Gas Supply Emergency while firm load shedding takes place as required in our Safety Case.

4.1.3.1 Orderly rundown assumptions

1. Severe winter has been experienced, no commercial shipper storage available from 05:00 hours and no shipper firm load reduction.
2. A Network Gas Supply Emergency is declared effective from 05:00 hours and firm load shedding of VLDMCs and LDZ DM loads is required to balance supply and demand.
3. NTS linepack is used to manage the variance between supply and demand within day but is limited to +/- 10mcm.
4. With no commercial shipper storage available, the within day supply shortfall is assumed to be met by a combination of OM booked in Storage and/or LNG Importation facilities with storage.

4.2 Post Tender Operating Margins Requirements

Following the tender process, responses have been collated and the total quantities have been re-assessed and network modelling has been undertaken based on the profiles of stock and deliverability provided in the submitted tenders (please see section 5).

5 Aggregate Operating Margins Booking 2023/24

Table 1 below shows the aggregated OM booking for 2023/24.

Table 1: 2023/24 Operating Margins Booking³

	2022/23 Volume Booking (GWh)	2023/24 Volume Booking (GWh)	2023/24 Max Deliverability (GWh/d)
OM Booking	989	948	592

This booking explicitly meets our UNC and Safety Case obligations.

Further detail on the 2023/24 OM tender event will be published later this year on the website below:
<https://www.nationalgridgas.com/balancing/operating-margins-om>

The bookings in Table 1 meet the calculated maximum OM deliverability requirement. To reduce costs and given that many of these sites are expected to be flowing gas on a day of high demand, site deliverability will not be booked. Therefore, interruptible deliverability rights or over-run deliverability may be used on the day.

³ Subject to contract

6 The Operating Margins Profile

Table 2 illustrates the 2023/24 OM Profile, including the quantity of OM required for each month of the contract year.

The profiles are generated based on the likelihood of the scenario requiring the use of each group of OM for that time of year, with proportions of groups being calculated from energy forecasting assumptions of demand and supply.

Table 2: 2023/24 Operating Margins Profile

	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Monitor (GWh)	613	423	406	395	445	752	892	948	948	948	892	808
Monitor (%)	65%	45%	43%	42%	47%	79%	94%	100%	100%	100%	94%	85%

7 Operating Margins WACOG (Weighted Average Cost Of Gas) Calculation Principles

In accordance with Sections K4.2.3(b) and K4.2.6(b) of the UNC, National Gas Transmission must publish the principles by which the OM WACOG and Net Margins WACOG, will be calculated in relation to the facilities where National Gas Transmission has entered into OM Gas Delivery Arrangements.

For Gas Delivery Arrangements, OM WACOG and Net Margins WACOG (Margins WACOG) shall be equal and, in respect of an OM Facility on a Day, calculated as:

- (i) the total cost of utilising OM under Gas Delivery Arrangement(s) at such OM Facility; divided by
- (ii) the amount of gas delivered to National Grid NTS under the Gas Delivery Arrangement(s) at such OM Facility.