



# Procurement Guidelines

National Grid Gas plc (NGG)

**NGG plc Gas Transporter Licence Special Condition 9.19  
System Management Services**

Effective from 1<sup>st</sup> April 2021 Version 19

**nationalgrid**

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## Modification and Document Revision History

### 1 Uniform Network Code (UNC) Modification History

UNC Modification Reference Number	Date of Implementation	Notes
		None applicable

### 2 Document Revision History

Version	Date	Notes
V1.0	2 <sup>nd</sup> October 2002	First Version
V2.0	1 <sup>st</sup> April 2003	Incorporated annual revisions, including updates to information provision and contact names and addresses.
V3.0	1 <sup>st</sup> April 2004	Incorporated annual revisions, including updates to contact names and addresses. Also, minor textual clarifications.
V4.0	1 <sup>st</sup> April 2005	Modified to incorporate Mod 0710 and housekeeping changes.
V5.0	19 <sup>th</sup> July 2005	Housekeeping changes
V6.0	1 <sup>st</sup> April 2006	Housekeeping changes (National Grid rebrand)
V7.0	1 <sup>st</sup> April 2008	Annual review as required by National Grid GT Licence Special Condition C5.3 Housekeeping changes.
V8.0	18 <sup>th</sup> March 2009	Annual review as required by National Grid GT Licence Special Condition C5.3 Updated table 1 (p15) as a result of the implementation of Modification Proposal 0240
V9.0	15 <sup>th</sup> March 2010	Annual review as required by National Grid GT Licence Special Condition C5.3
V10.0	15 <sup>th</sup> March 2011	Annual review as required by National Grid GT Licence Special Condition C5.3
V11.0	15 <sup>th</sup> March 2012	Annual review as required by National Grid GT Licence Special Condition C5.3
V12.0	22 January 2013	Annual review as required by National Grid GT Licence Special Condition C5.3
V13.0	February 2014	Annual review as required by National Grid NTS GT Licence Special Condition 8A Note: licence conditions renumbered as part of RIIO-T1 price control.
V14.0	March 2015	Housekeeping changes regarding National Grid NTS GT Licence Special Condition 8A
V15.0	March 2016	Housekeeping changes and addition of a glossary in line with SMPS
V16.0	March 2017	Housekeeping changes
V16.1	February 2018	No changes proposed by National Grid Gas
V17.0	April 2018	Re-published with no change to version 16.0
V17.1	January 2020	Aesthetic changes to bring in line with National Grid branding Change of National Grid NTS to NGGT to reflect change in how National Grid refers to its Transmission Business Housekeeping Changes
V18.0	January 2021	Housekeeping changes regarding: <ul style="list-style-type: none"> <li>Updated Licence references to align with RIIO T2 changes live from 1<sup>st</sup> April 2021</li> <li>Updated references of the 'Gas System Operator' or 'National Grid Gas Transmission (NGGT)' to 'National Grid Gas Plc (NGG)'</li> <li>Housekeeping changes to improve readability of document, and ensure consistency with the System Management Principles Statement (SMPS)</li> <li>Improved consistency of capitalisation of Licence and UNC defined terms to allow for easier identification of these terms</li> </ul>

		<ul style="list-style-type: none"> <li>• Where required for non-Licence or UNC terms, definitions included in body of document, rather than separate glossary to improve readability</li> <li>• Amended email address to contact for copies of this document</li> </ul>
V19.0	August 2021	Information relating to Credit Risk Policy updated to reflect current practices.

## Part A - Introduction

### 1 Document Purpose

This document sets out the Procurement Guidelines (“the Guidelines”) which National Grid Gas plc is required to maintain, in accordance with Special Condition 9.19, System Management Services (the Special Condition) of the National Grid Gas plc Gas Transporter Licence (the Licence). The purpose of the Guidelines is to provide information on the System Management Services and tools that NGG may procure in relation to its System Management role. The Guidelines cannot cover every possible situation that NGG may encounter. They represent a generic statement of the procurement principles and tools that the company will use in respect of gas, energy and/or capacity management.

Unless defined in the Guidelines, capitalised terms used herein shall have the same meanings given to them in the Licence or the Uniform Network Code (UNC). Where statutory obligations or the provisions of the UNC are considered inconsistent with any part of these Guidelines, then the relevant statutory obligation and/or UNC provision will take precedence.

The latest version of this document is available electronically from the National Grid website, alternatively a copy may be requested from: [box.operationalliaison@nationalgrid.com](mailto:box.operationalliaison@nationalgrid.com)

Previous versions of the Procurement Guidelines will be held for reference purposes by the above contact.

### 2 National Grid Gas Plc Performance

In following the guidelines detailed in this document, NGG will seek at all times to act in good faith and in a reasonable and prudent manner in its dealings, save to the extent that:

- there is an existing standard that NGG is legally required to meet; or
- NGG reasonably believes the guidelines in this document conflict with any legal or regulatory provision.

The Licence imposes on NGG an obligation to operate the system in an efficient, economic and co-ordinated manner. Ofgem has indicated that it would expect this obligation to be satisfied where NGG is responding to the commercial incentives in its NGG incentive schemes<sup>1</sup>. However where these commercial incentives are no longer considered to be effective, such as when revenues relating to one or more incentive schemes have, or are expected to have, reached a cap or collar, Ofgem has indicated that it would expect the behaviour of NGG to be constrained by the Licence condition.

### 3 Change Process

The Guidelines have been developed by NGG and the form of the Guidelines has been approved by the Authority. The Guidelines may only be modified in accordance with the processes set out in Special Condition 9.19 of the Licence. NGG will monitor the operation and application of the Guidelines and, where appropriate, periodically meet with Users to review the Guidelines and consider modifications.

The Guidelines make reference to a number of provisions contained in the UNC. In the event that any of the relevant provisions in the UNC are modified it may become necessary for NGG to amend the Guidelines in order that they remain consistent with the UNC. Where the provisions of the UNC are inconsistent with any part of the Guidelines, the UNC will take precedence. For the avoidance of doubt, these Guidelines do not form part of the UNC.

## Part B – General Principles

### 1 System Management Services

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<sup>1</sup> Incentive schemes established by Ofgem to encourage certain operational and/or commercial behaviours on NGG as System Operator. NGG Licence, Special Condition 5.6 System Operator external incentives, revenues and costs (SOIRct).

The services that NGG needs to procure in order to operate the National Transmission System constitute System Management Services.

Special Condition 1.1 defines System Management Services as meaning “*services in relation to the balancing of gas inputs to and gas offtakes from the NTS and includes Eligible Balancing Actions and Eligible Balancing Action derivatives and Constraint Management services.*” Furthermore, constraint management services are defined as “*services in relation to the management of capacity rights*”. NGG also has an incentive structure contained within its Licence (Special Condition 9.19) whereby it is incentivised to operate the NTS in an “*efficient, economic and co-ordinated manner*”.

Such System Management Services may be provided from a variety of sources, for example via trading systems or contractual frameworks.

## 1.1 Trading Systems

Trading systems are defined as electronic trading mechanisms. NGG may have access to any trading system that may assist it in the provision of services to support the System Management role. Such services could include access to markets and mechanisms operated by third parties (e.g. the On-the-day Commodity Market operated by ICE Endex), as well as access to mechanisms that might be operated by NGG. Such trading systems can be regarded as providing tools that can be used either close to or well in advance of the time of gas flow.

Where NGG transacts on trading systems provided by third parties it will transact on exactly the same basis as other participants, including any provisions applicable in respect of credit arrangements and information release.

## 1.2 Other System Management Services

These services may be physically or financially based services or contracts, and may include:

- Forwards, futures and options contracts in respect of both gas (NBP or locational) and/or capacity and other derivatives;
- Supply/demand side management contracts.

Physically based services will be focused on enabling NGG to buy a right to physically adjust gas flows at points on the system with the counterparty having an obligation to deliver such change.

These services may be distinguished from financially based services where service provision is only likely to impact physical flows via indirect effects. For example the buy-back of capacity or purchase/disposal of title to gas at the NBP.

## 2 Procurement Principles

When procuring System Management Services, NGG will apply the following principles:

- Without prejudice to the factors below, and after having taken relevant price and operational differences into account, NGG shall contract for System Management Services in a manner that is consistent with the Competition Act 1998 and the statutory obligations of NGG.
- NGG will be influenced by the terms in its Licence relating to the NGG incentive schemes and the economic, efficient and co-ordinated operation obligation.
- In contracting for the provision of System Management Services, NGG will endeavour to purchase from the most economic and efficient sources available at that time, having regard to the attributes of such service and delivery, which may include assessed liquidity of the market, reliability, quality, quantity, location, lead time, deliverability, and diversity.
- In assessing the reliability of the service NGG will consider, for example, the historical performance of the provider and an assessment of the prospective effectiveness of the procured service.
- Where there is, or is likely to be in the future, sufficient competition in the provision of a System Management Service, NGG would seek to procure that service via an appropriate competitive process (identified in Table 1) or market mechanism, as described in Part D of this document. In

such instances, NGG shall provide a statement indicating the processes and terms under which contracts will be awarded. Copies of these statements are available from the Information Provision Contact listed in Part E of this document.

- If NGG considers that there is either insufficient competition in the provision of a System Management Service or there is a more economic or efficient option, NGG may contract for such provision on a negotiated bilateral basis. NGG may wish to stimulate development of secondary markets using bilateral contracts.
- If System Management Services of high value are required over a relatively long term, NGG will ordinarily advertise that requirement to market participants.

### 3 Tool Usage

When considering what actions will be undertaken, NGG will consider the use of all available System Management Services including forwards and options agreements.

When NGG considers it likely to lead to economic and efficient outcomes it may elect to trade on any market or mechanism available to other market participants, or procure and trade any contract affording value arising from gas, capacity, any related derivative or supply/demand management service, having regard to Special Condition 9.19 of the Licence.

The consideration of NGG as to whether to undertake actions within or outside of the trading systems will be based on an assessment of the level and cost of services expected to be available within such trading systems.

NGG will look to enter into contracts in order to complement or substitute for trading system use, when:

- NGG anticipates there is insufficient service availability via the trading systems to meet requirements, and/or
- NGG considers that such contracts will lead to a reduction in cost or a more favourable risk profile for the community and/or NGG, and/or
- NGG considers that the required operational characteristics are not available through the trading systems.

## Part C – System Management Services

### 1 Types of System Management Services

These are described in Part D of the System Management Principles Statement, which additionally describes the possible applications of each type of tool or service.

NGG requires System Management Services to enable it to fulfil its statutory, regulatory and Licence obligations in respect of:

- Shrinkage;
- Operating Margins;
- Entry and Exit Capacity Management;
- Gas Balancing; and
- System Operation

### 2 Description of System Management Services

#### 2.1 Use of Services

NGG is encouraged to utilise a broad range of tools for system management purposes, taking account of Licence obligations, under NGG incentive schemes.

NGG's Licence obligation to operate an economic and efficient system implies it should be able to consider and deploy a range of tools including, but not limited to, any energy or capacity contracts forward/options

and other related derivative products called both inside and outside of the OCM<sup>2</sup>, UK Link NTS capacity management mechanism or any other trading system.

NGG is prohibited from purchasing or otherwise trading energy/capacity, except pursuant to the procurement or use of services in respect of facilitating balancing management and constraint management (as per Special Condition Conditions 2.3, System Operator Revenue Restriction (SOARt), 5.5 Entry Capacity and Exit Capacity Constraint Management (CMt) and Condition 5.6 System Operator external incentives, revenues and costs (SOIRcT) of the Licence).

## 2.2 Procurement & Trading Arrangements

NGG may use any existing or future tools, including the buying or selling of gas and capacity option/forward contracts, in order to:

- Manage the risk and exposure of the community and NGG to system management costs using risk management tools and strategies;
- Provide additional and complementary contractual arrangements to maintain a safe and secure system whilst avoiding undue dependence on prompt mechanisms. The services described above may fulfil this requirement providing either operational and/or financial risk mitigation for both the System Operator and Users.
- Reduce the total cost of system management of the transmission system and enable commercial optimisation across different system management instruments. For example, if it is anticipated before the gas Day that capacity management actions are likely, it may be more economic and efficient to agree forward or options contracts than waiting until the gas Day and using a prompt mechanism.
- Better manage the financial risks/rewards associated with system management.
- To access or develop greater liquidity in commodity markets and to promote new sources of flexibility

## Part D – Procurement Mechanisms

### 1 Procurement Process

#### 1.1 Physical Service Provision

Where NGG is involved in procuring physical services and sufficient competition exists, NGG will normally seek to contract for services via a market mechanism. In other circumstances, bilateral contracts may be entered with the service providers. In all circumstances, NGG will be mindful of its Licence obligations when entering these agreements.

#### 1.2 Use of Existing Markets/Mechanisms

Wherever an existing market or mechanism is available NGG will consider the use of such tools if appropriate. However, for physical services NGG's requirements are likely to be different from most other players, and hence there may not be an economic market or mechanism available, and therefore NGG may need to conduct a competitive procurement process.

#### 1.3 Competitive Procurement Mechanisms

This will normally be a tender based process for the selection and award of service contracts. NGG may seek expressions of interest or consult with potential service providers ahead of invoking formal tendering processes. The procurement process will normally include:

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<sup>2</sup> The On-the-day Commodity Market (OCM) - Trading System for contingency balancing arrangements  
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- A statement of service requirements;
- The issuing of invitation to tender documentation, which will endeavour to provide sufficient information to allow the provision of a service offer to be made, including standard contract terms and conditions;
- Arrangements for governance of the process;
- A statement of principles and criteria that NGG will apply when evaluating proposals.

## 1.4 Bilateral Contracts

Where NGG considers that there is insufficient competition to generate an efficient tender outcome (taking into account any locational factors, special technical requirements, unique characteristics of individual providers or where some form of monopoly exists) it may be appropriate to consider bilateral arrangements.

Where NGG considers there to be limited competition, NGG may:

- Contact those service providers believed to be capable of providing the required service, or who have expressed an interest in providing the service, in order to establish whether they wish to enter into a contract for the service in question; and
- Offer non-discriminatory terms for the acquisition of the service.

However, if there is insufficient time to identify and contact other providers, NGG reserves the right to contract as appropriate to meet system security requirements.

In addition, where NGG considers that the use of bilateral contracts may be more efficient and economic, or are anticipated to enhance market development and hence competition in the longer term, bilateral contracts may be used. These contracts will be entered consistent with the Licence and its obligation on NGG to operate in an economic, efficient and coordinated manner.

## 1.5 Market Development

NGG will endeavour to develop markets, liquidity and standardised services and contracts where these are consistent with its obligations. This may involve attempts to stimulate the market through the development of bilateral contracts, as might be expected in emerging markets.

## 1.6 Other Service Provision

In many areas, NGG will be transacting for services that involve the purchase of a commodity, for example gas at the NBP or to be delivered locationally. These are markets in which NGG is not expected to be dominant and therefore NGG expects to trade in these markets in a similar way to other market participants. NGG will therefore transact on exchanges, or via brokers or any means available to other parties, to buy or sell the commodity.

## 2 Credit Risk

Credit policies in respect to the provision of System Management Services are detailed in the UNC.

Where NGG enters into commercial contracts with Users we require a credit rating no worse than BBB (as determined by Standard and Poor's) or Baa3 (as determined by Moody's). If a potential supplier has a rating with an alternative agency, we would look at that on an individual basis. Any bank or financial institution must be rated A3/A- by Moody's.

Where a counterparty does not meet this rating, we would require credit security – either in the form of a Parent Company Guarantee (assuming the parent company meets the rating) or alternatively a Letter of Credit.

## 3 Information Release

### 3.1 Tender Processes

NGG issues information annually about tender processes for System Management services to the industry in the Procurement Guidelines Report (see 3.2 below). Additionally, NGG has UNC obligations in respect of

procurement of services via Capacity Management Agreements, and this extends to the provision of information in respect of a Contract Type (either forwards or options), Period, and ASEP / NTS Exit Point combination for each competitive tender process.

As a general principle, where NGG is involved in a competitive tender it would expect to publish information in a timely manner about the outcome of the process.

### 3.2 Procurement Guidelines Report

NGG will provide an annual report during April detailing procurement outcomes in the previous year, as required under Special Condition 9.19.7 of the Licence. These are available on National Grid’s Website:

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

### 3.3 Other Procurement Processes

NGG believes that, as a general principle, it should have discretion as to whether it publishes information about the results of procurement processes not covered by sections 3.1 or 3.2 of these Guidelines. For example, where the market is largely conducted on the basis of bilateral trades, NGG should be able to use such methods and have similar commercial freedom as any other player regarding its trading position. Similarly, where NGG is transacting on third party Trading Systems, such participation will be on the basis of the same terms that would be available to any other User of that system.

In assessing whether to publish the results of any other procurement processes, NGG will consider:

- The extent of competition known or considered likely to exist in the market; and
- The normal practise of Users within the market.

The extent of information release will be designed to encourage, in NGG’s view, the most economic and efficient outcome.

### 3.4 Invoice Support

Notwithstanding the above, sufficient information to establish the basis for any charges and to support invoiced amounts will either be released to the industry or made available to a suitably appointed auditor to confirm the validity of the charges.

### 3.5 Procurement Communication Media

Wherever practical, and where consistent with economic and efficient operation, NGG shall communicate any service requirement by contacting those parties that it believes may be interested in providing the service, including any existing or past service providers, and anyone that has expressed a prior interest in providing such services in the future. In addition, notification of tenders will normally be advertised as appropriate.

### 3.6 Procurement Summary

Table 1 sets out the System Management Services NGG expects or intends to procure, and the mechanisms by which it expects to procure them.

**Table One – System Management Services Summary Table**

Services	Means of Procurement
Gas Balancing	<ul style="list-style-type: none"> <li>• On the Day Commodity Market (title, physical, locational and DSR)</li> <li>• Over the Counter / brokered markets</li> <li>• Other exchanges (e.g. ICE, Spectron Online)</li> <li>• Tenders</li> <li>• Bilateral agreements</li> </ul>

Entry and Exit Capacity Management	<ul style="list-style-type: none"> <li>• Gemini / Gemini Exit</li> <li>• On the Day Commodity Market (locational buys / sells)</li> <li>• Bilateral agreements</li> <li>• Contracts derived from market tenders</li> <li>• Other exchanges (e.g. ICE)</li> </ul>
Shrinkage	<ul style="list-style-type: none"> <li>• On the Day Commodity Market (title)</li> <li>• Over the Counter / brokered markets</li> <li>• Other exchanges (e.g. ICE)</li> <li>• Bilateral agreements</li> </ul>
System Operation	<ul style="list-style-type: none"> <li>• Standard Contracts (e.g. NEA, NExA, IA, SCA)</li> </ul>
Operating Margins Gas	<ul style="list-style-type: none"> <li>• Over the Counter / brokered markets</li> <li>• Bilateral agreements</li> <li>• Tenders</li> </ul>

## Part E – Information Provision

### 1 General Provisions

NGG will normally publish information on the System Management Services that it intends to procure. In doing so NGG will seek to provide market participants and other interested parties with sufficient information without compromising the commercial position of any contracting party, including NGG.

### 2 Information Provision Contacts

All queries regarding the provision of System Management Services NGG intends to procure should be made, in the first instance, to:

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

### 3 Information Provision Detail

In circumstances where tenders are held, NGG will publish appropriate information on the outcome of these processes via market reports, which are available on the National Grid website:

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

### 4 Disclaimer

All information published or otherwise made available to market participants and other interested parties pursuant to these Procurement Guidelines is done so in good faith. However, no warranty or representation is given by NGG, its officers, employees or agents as to the accuracy or completeness of any such information, nor is any warranty or representation given that there are no matters material to any such information not contained or referred to therein. Accordingly, no liability can be accepted for any error, misstatement or omission.

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