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| Modification proposal: | Uniform Network Code (UNC) 0128: Amendment to Entry Capacity Baselines (UNC 0128) | | |
| Decision: | The Authority¹ has decided to reject this proposal | | |
| Target audience: | The Joint Office, Parties to the UNC and other interested parties | | |
| Date of publication: | 17 January 2007 | Implementation Date: | N/A |

Background to the modification proposal

UNC modification proposal 0128 is intended to remedy the potential problem of increased buyback costs that under the *status quo* could result from a misalignment between the entry capacity release obligations on National Grid Gas plc (NGG) in relation to the Annual Monthly System Entry Capacity (AMSEC) auctions scheduled for February and the entry capacity release obligations that NGG will have with effect from 1 April 2007 (arising from the transmission price control review (TPCR)) which NGG accepted in December 2006.

The modification proposal

The modification proposal changes the current arrangements whereby the levels of entry capacity that NGG is obliged to release in the AMSEC auctions are determined by reference to the licence of NGG to a situation where levels of entry capacity that NGG is obliged to release in the AMSEC auctions are equal to the proposals set out in Ofgem's TPCR final proposals document².

UNC Panel³ recommendation

At its meeting of 8 January 2007, the UNC Panel recommended that the modification proposal not be implemented.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 8 January 2007. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁴.

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC⁵.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² [[Reference to the FP document]]

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://62.173.69.60/document_fetch.php?documentid=6547

Reasons for the Authority's decision

At the Modification Panel meeting held on 8 January 2007, of the 8 Voting Members present, capable of casting 10 votes, 3 votes were cast in favour of implementing this modification proposal. Therefore, the Modification Panel did not recommend implementation of this modification proposal.

Ofgem notes, in its decision to grant urgent status to modification proposal 129 dated 10th January 2007, that this modification proposal and modification proposal 129 are incompatible.

Ofgem notes that the implementation of this modification proposal would result in significant parameters of the gas entry incentives regime, namely the capacity baselines, being moved from the licence to the UNC which by its nature is a more flexible governance instrument.

Ofgem considers that it is preferable that aspects of the incentive arrangements, such as baseline capacity levels, which have the potential to materially affect NGG NTS's financial exposure, should be retained in the licence. We consider that this is necessary to provide NGG NTS with a sufficient degree of certainty in order to allow it to respond to its incentives. Ofgem is concerned that this proposal would make the gas entry incentive regime less stable, as it could be changed by network code modifications rather than licence modifications. Ofgem therefore considers that this proposal would be less likely to facilitate the economic and efficient operation of the gas pipeline system.



[Insert [Managing] Director's signature and title]

Signed on behalf of the Authority and authorised for that purpose.