

Modification proposal:	<b>Uniform Network Code (UNC) 134V: Publication of Nodal NTS Demand Forecasts (UNC 134V)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	21 June 2007	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

On 24 April 2007 the Authority decided not to veto the modification proposal to the gas transmission transportation charging methodology (the "Charging Methodology") NTS GCM 01 (Alternative Methodologies for Determination of NTS Entry and Exit Capacity Prices<sup>3</sup>). This will be implemented on 1 October 2007 and will result in the replacement of the Transcost model by the transportation model in setting entry and exit capacity prices.

The transportation model works by considering each entry and exit point as a node in a network of interconnected pipes (of known length). It then applies National Grid Gas's (NGG) best estimate of the relevant year's 1-in-20 peak base case data in order to derive the shortest total length of network necessary to match this scenario, i.e. it minimises the total of (flow x distance) for a balanced network. Exit capacity charges are calculated by considering the exit node distances from a reference node on the network and their associated demand capacities, then adjusting the sum of the products of these values until the total charge obtained represents 50% of the allowed revenue. A single exit capacity price is calculated for each distribution network charging zone as the flow-weighted average of the individually determined exit charge for each node in that zone.

One of the important benefits of the transportation model is that it is being made available to shippers to increase transparency over the charge setting process.

However, the UNC currently only obliges NGG to publish demand at exit nodes on an aggregate basis and not at a nodal level. Therefore, currently users are not able to benefit from having access to the transportation model as NGG does not publish the estimates of nodal demand that it uses in the charge setting process. This, therefore, makes it impossible for users to replicate the charge setting process for themselves. It is for this reason that UNC 134V has been proposed.

## The modification proposal

Modification Proposal UNC 134V was raised by NGG in February 2007. The aim of UNC 134V is to remove the current restrictions on the publication of demand forecasts at a nodal granularity such that NGG may publish, without breaching confidentiality obligations, the data it uses to:

- Set indicative or final capacity charges under the Charging Methodology, and
- Determine indicative capacity charges under proposed amendments to the Charging Methodology.

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

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> <http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Documents1/Scan001.pdf>

The proposal itself replaces the obligation to publish peak day demand and 1-in-20 peak day demand at system exit points on an aggregate basis over ten years with the obligation for 1-in-20 peak day demand data to be published on an individual NTS exit point basis (but not for storage connection points) over three years. The reduced time period reflects the changes made to the Charging Methodology as a result of NTS GCM 01.

The proposer believes that UNC 134V will better facilitate the achievement of the following relevant objectives:

- The economic and efficient operation of the pipe-line system to which this licence relates, and
- So far as consistent with sub-paragraphs (a) to (c) the securing of effective competition:
  - i. between relevant shippers;
  - ii. between relevant suppliers.

#### **UNC Panel<sup>4</sup> recommendation**

At the Modification Panel meeting on 17 May 2007, of the ten voting members present and capable of casting ten votes, all ten votes were cast in favour of implementing UNC 134V. The Modification Panel therefore recommends the implementation of UNC 134V.

#### **The Authority's decision**

**The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 May 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 FMR<sup>5</sup>. The Authority has concluded that:**

- 1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>6</sup>; and**
- 2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>7</sup>.**

#### **Reasons for the Authority's decision**

##### ***Relevant objective (a) – the efficient and economic operation of the pipe-line system to which this licence relates***

The proposer and seven other respondents think that relevant objective (a) would be better facilitated by UNC 134V.

Ofgem agrees that UNC 134V better facilitates the efficient and economic operation of the pipe-line system to which the licence relates. The transportation model used by NGG in

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<sup>4</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>5</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>6</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=6547](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)

<sup>7</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

the Charging Methodology is now available to Users. If the nodal demand estimate data, used in the transportation model by NGG to set capacity charges was also made available to Users, it should assist users in making more informed decisions in relation to their use of the National Transmission System (NTS). In this regard, more informed decisions by users about where and to what degree they use the NTS should help improve the accuracy of the information provided to NGG about the use of the NTS and result in the more efficient and economic operation of the system.

***Relevant objective (d) – so far is consistent with relevant objectives (a) to (c) the securing of effective competition (i) between relevant shippers and (ii) Between relevant suppliers***

The proposer and seven other respondents think that relevant objective (d)(i) would be better facilitated by UNC 134V. Whilst the proposer and six other respondents think that relevant objective (d)(ii) would be better facilitated by UNC 134V.

Ofgem agrees that UNC 134V better facilitates the securing of effective competition between relevant shippers and between relevant suppliers. The greater transparency in the charge setting process, described above as a result of UNC 134V, should allow shippers and suppliers to better understand and predict future network charges. This should provide greater clarity in how shippers and suppliers identify their own charges and therefore allow them to compete more effectively in the market.

The more efficient and economic operation of the NTS along with more effective competition between relevant shippers and between relevant suppliers should result in less costs of providing gas to consumers now and in the future, this therefore assists the Authority in its principal objective of protecting the interests of consumers.

All ten respondents to the Joint Office's consultation on the modification proposal supported the implementation of UNC 134V.

However, a number of respondents raised a concern over lack of transparency in that UNC 134V does not require NGG to update nodal exit demand forecast data once published despite any revisions to these forecasts NGG may make during the course of the year. The respondents with this concern thought, in the spirit of greater transparency, that NGG should update the published information as and when there are updates to its nodal exit demand forecasts. Ofgem notes this concern, however, it is the responsibility of UNC participants to take forward any modification proposals which they think can better facilitate the relevant objectives of the UNC.

In terms of implementation timescales, the FMR stated that UNC 134V had been initially planned for implementation on 1 April 2007. This would have been to synchronise with the planned implementation of the modification to the Charging Methodology which triggered this i.e. NTS GCM 01. However, the implementation of NTS GCM 01 was postponed to 1 October 2007. Therefore, in confirming the implementation date of UNC 134V we would recommend that the Joint Office considers synchronising the implementation of UNC 134V with that of NTS GCM 01.

**Decision notice**

**In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 134V: Publication of Nodal NTS demand Forecasts be made.**

A handwritten signature in black ink, appearing to read 'R Hull', written in a cursive style.

**Robert Hull  
Director of Transmission  
Signed on behalf of the Authority and authorised for that purpose.**