

Modification proposal:	<b>Uniform Network Code UNC 138:</b> Transitional Arrangements for Entry Capacity Transfers to Sold out ASEPs, UNC138		
Decision:	<b>The Authority<sup>1</sup> has decided to reject this proposal</b>		
Target audience:	<b>The Joint Office, Parties to the UNC and other interested parties</b>		
Date of publication:	<b>8<sup>th</sup> May 2007</b>	Implementation Date:	<b>N/A</b>

### Background to the modification proposal

As part of the transmission price control review ("TPCR") Ofgem proposed obligations on National Grid Gas NTS ("NGG NTS") requiring it to facilitate capacity trades. The stated purpose of this modification proposal was to introduce certain aspects of the Ofgem TPCR proposals in anticipation of the relevant licence modifications.

### The modification proposal

This modification proposal introduced a mechanism whereby a shipper, holding rights to entry capacity at multiple entry points, can reallocate that capacity between the different entry points in its portfolio.

The proposer stated that it believed that:

- In respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide Users at sold out ASEPs<sup>2</sup> the opportunity to seek to transfer sold capacity from other ASEPs. This will result in the avoidance of sterilisation of capacity and stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system;
- In respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee's obligations under this licence), the Proposal meets new Licence obligations on National Grid NTS to facilitate the transfer of sold capacity between ASEPs;
- In respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers

### UNC Panel<sup>3</sup> recommendation

At the Modification Panel meeting held on 24 April 2007, of the seven Voting Members present, capable of casting eight votes, three votes were cast in favour of implementing this modification proposal. Therefore the Panel did not recommend implementation of this modification proposal.

### The Authority's decision

<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> The term ASEP means aggregated system entry point i.e. a point at which gas can be entered into the NTS

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

The Authority has considered the issues raised by the modification proposal and the Final Modification Report ("FMR") dated 24th April 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>4</sup>. The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC<sup>5</sup>.

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

In making this decision Ofgem has assessed whether the proposed modification better facilitates the relevant code objectives. In Ofgem's opinion the relevant objectives for this modification proposal are:

"(a) the efficient and economic operation of the pipe-line system to which this licence relates;"

"(c) so far as is consistent with sub paragraphs (a) and (b) the efficient discharge of the licensee's obligations under this licence;"

"(d) so far as is consistent with sub paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers"

It is Ofgem's opinion that modification proposal UNC 138 does not have a relevant bearing on the other code objectives and so is neutral when assessed against them.

### **Assessment against relevant code objectives**

#### *The efficient and economic operation of the NTS*

As part of the TPCR Ofgem proposed obligations on NGG NTS requiring it to facilitate capacity trades. Ofgem's proposal to do this was intended to make the gas transmission system more efficient and was an important part of the overall price control settlement.

Respondents had differing views on whether, in the context of their only being one opportunity a year to transfer or trade capacity, transfer should precede trade or *vice versa*. Ofgem regards this as something of a false distinction as it is unclear that NGG NTS will meet its proposed licence obligations with a mechanism that only allows transfers and trades to occur once a year.

The specific proposal in modification proposal UNC 138 only implements a small subset of the capacity trade mechanism and does not introduce the associated mechanism for the transfer of unsold capacity. Without this mechanism it is unclear that introducing capacity trading [on its own] will lead to a more efficient and economic operation of the NTS. Ofgem therefore does not consider that this modification proposal better facilitates the achievement of code objective (a).

#### *The efficient discharge of the licensees objectives under the licence*

Ofgem is proposing to introduce obligations on NGG NTS to facilitate capacity trade and produce a capacity trade methodology through a modification to NGG NTS's gas

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<sup>4</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>5</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=8797](http://epr.ofgem.gov.uk/document_fetch.php?documentid=8797)

transporters licence, such an obligation is to be introduced with retroactive effect from 1<sup>st</sup> April 2007.

Furthermore, this modification proposal (introducing a restricted set of trading in a once a year window) would not seem to meet the objectives Ofgem currently anticipates introducing into the licence of NGG NTS in accordance with the TPCR proposals.

Although NGG NTS has now produced a draft capacity trade methodology, Ofgem has not yet indicated whether it would be minded to accept this proposed approach. Although the capacity trade methodology is not a necessary prerequisite for a decision in favour of this modification proposal it would be a necessary precondition for the modification proposal to have any effect.

Ofgem therefore considers that this modification proposal does not better facilitate the achievement of code objective (c)

*Securing of effective competition between relevant shippers*

This modification proposal introduces a trade mechanism only within the portfolio of a given shipper. Ofgem shares the concerns expressed by some respondents that a restricted mechanism of this sort will have different effects on different shippers (for instance those who already have a diversity portfolio of capacity holdings). Ofgem is therefore concerned that this may unduly distort the competitive market between shippers.

Ofgem does not therefore consider that this modification proposal better facilitates the achievement of code objective d.

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 138: Transitional Arrangements for Entry Capacity Transfers to Sold out ASEPs, should not be made.



**Robert Hull, Director - Transmission**

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