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| Modification proposal: | Uniform Network Code (UNC) 159: National Grid NTS discretionary release of interruptible NTS entry capacity (UNC159) | | |
| Decision: | The Authority ¹ directs that this proposal be made ² | | |
| Target audience: | The Joint Office, Parties to the UNC and other interested parties | | |
| Date of publication: | 29 August 2007 | Implementation Date: | 1 September 2007 |

Background to the modification proposal

Currently the Uniform Network Code (UNC) requires that National Grid Gas NTS (NGG NTS) releases interruptible National Transmission System (NTS) entry capacity through the Daily Interruptible System Entry Capacity (DISEC) auction process. The amount that NGG NTS can release in respect of any entry point and for any day is limited to an amount equal to the Daily Average Unutilised Firm Capacity. This is known as the use-it-or-lose-it (UIOLI) calculation.

This is considered to be quite restrictive as to the amount of interruptible NTS entry capacity that can be made available.

The modification proposal

NGG NTS proposes that in addition to the Daily Average Unutilised Firm Capacity it should have the discretion to release further amounts of interruptible NTS entry capacity under the same auction process.

The proposer considers that UNC159 will provide additional flexibility in the release of interruptible NTS entry capacity and avoid gas being stranded offshore.

Furthermore the proposer considers that UNC159 better facilitates the relevant objectives³ of:

- The efficient and economic operation of the pipe-line system to which this licence relates
- The securing of effective competition between relevant shippers

UNC Panel⁴ recommendation

At the modification panel meeting held on 16 August 2007, of the 8 voting members present, capable of casting 9 votes, 9 votes were in favour of implementing UNC159.

Therefore the panel recommended implementation of the UNC163.

The Authority's decision

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

³ As set out in Standard Special Condition A11 (1) (a) - (f) of the Gas Transporters Licence, see footnote 6

⁴ 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 16 August 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 FMR⁵. The Authority has concluded that:

- 1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁶; and**
- 2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.**

Reasons for the Authority's decision

The efficient and economic operation of the pipe-line system to which this licence relates

The respondents were of the view that it is inefficient to have restrictions on interruptible NTS entry capacity and that UNC159 should result in additional capacity which should prevent gas being stranded offshore. One respondent considered that it is vital to maximise gas flows on the NTS and considered that UNC159 goes some way towards achieving this.

Ofgem agrees that implementation of UNC159 should result in greater flexibility in releasing additional amounts of interruptible NTS entry capacity. This potential for additional capacity from the existing network should result in more efficient and economic operation of the NTS.

the efficient discharge of the licensee's obligations under this licence

One respondent considered that UNC159 strengthens UK compliance with EU regulations that transmission operators shall provide both firm and interruptible services and also offer both long and short term services down to a minimum period of one day.

However, one respondent supported the principle behind UNC159 but thought it was inappropriate to implement it at this time. It thought the timing was inappropriate due to the current review of the entry capacity baselines. As it considered that the issues raised in UNC159 should be considered in the baseline review.

In considering the view that the timing of UNC159 is inappropriate we have weighed up the options and consider that it is beneficial to bring about this change now ahead of the winter period so as to assist in ensuring capacity is maximised.

So far 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

A number of respondents considered that releasing additional interruptible NTS entry capacity on a pay-as-bid basis with a reserve price should secure effective competition

⁵ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁶ 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

⁷ 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.

between shippers, and should also improve the UK's security of supply position. However, as this is a discretionary release of additional interruptible capacity a number of respondents would welcome greater transparency on the methodology for determining the amount to be released and the actual amounts to be released.

Ofgem also agrees that by releasing any additional amounts of interruptible NTS entry capacity on the same pay-as-bid basis on which interruptible capacity is currently released should facilitate competition between shippers.

Additionally, we consider that UNC159 should assist in maximising the availability of entry capacity to shippers close to the gas day and in doing so should ensure that supplies are not unnecessarily stranded offshore. The availability of any additional discretionary interruptible capacity should therefore better facilitate the securing of effective competition between shippers by enabling them to bring their gas onshore to the market and to their customers. These benefits should also help to improve the UK's security of supply position.

Ofgem shares the concerns of the respondents over transparency and considers that it may be beneficial to have greater transparency in how NGG NTS determines how additional interruptible NTS entry capacity should be released and the amounts which have actually been released.

As UNC159 should facilitate more economic and efficient operation of the NTS combined with increased potential for competition between shippers it should benefit consumers.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 159: *National Grid NTS discretionary release of interruptible NTS entry capacity* be made.



Robert Hull

Director of Transmission

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

