

Modification proposal:	Modification Proposal 0198: 'Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points'		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties NGG and other interested parties		
Date of publication:	1 May 2008	Implementation Date:	1 June 2008

Background to the Modification Proposal

On 24 June 2005 the Authority announced the delay to the potential implementation of enduring offtake arrangements until September 2007 for release of NTS offtake capacity rights from Gas Year 2010/11. As a result of this decision, transitional offtake arrangements needed to be developed to govern the allocation of offtake capacity to shippers and GDNs for the period 1 September 2008 through to 30 September 2010. These arrangements were subsequently approved in January 2006 through the implementation of Uniform Network Code (UNC) Modification Proposal 0046³. Under this proposal the transitional arrangements were scheduled to expire on 30 September 2010.

On 5 April 2007 the Authority directed the implementation of UNC Modification Proposal 0116V⁴ which provided for the introduction of enduring offtake arrangements. In its decision the Authority recommended that the implementation of the enduring offtake arrangements be delayed by one year until 1 April 2008.

On 24 May 2007 the Authority directed the implementation of UNC Modification Proposal 142 which extended the transitional arrangements by one year until 30 September 2011.

On 10 July 2007, the Competition Commission (CC) allowed in part an appeal against the Authority's decision to implement UNC Modification Proposal 0116V.

On 27 February 2008⁵, we issued an open letter to all interested parties concerning the next steps following the CC decision. This letter reaffirmed the Authority's proposed scope of reconsideration of the various UNC Modification Proposals and the Authority's planned timetable for undertaking this process and reaching a final decision on the various modifications.

The Modification Proposal

UNC Modification Proposal 0198 proposes the following changes to the UNC:

1. Firm NTS capacity allocations

National Grid NTS proposed that the current arrangements for firm capacity applications be extended to continue until 30 September 2012. According to the proposer, this will

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 "Modification Proposal 0046 'Extension of the sunset clauses for registration of capacity at NTS exit points'", Ofgem 20 January 2006.

⁴ "Uniform Network Code (UNC): Reform of the NTS offtake arrangements (UNC 0116V, 0116BV, 0116CVV, 0116VD and 0116A)", Ofgem, 5 April 2007.

⁵ "UNC 0116: enduring offtake – update on next steps following the Competition Commission's decision", 27 February 2008. Available at: www.ofgem.gov.uk

allow shippers to continue to request increases in firm capacity or the redesignation of an interruptible supply point as firm for utilisation over an extra gas year.

2. NTS offtake capacity registration process

Under Modification Proposal 0198, National Grid NTS would inform Gas Distribution Network (GDN) users whether their application for amendment to their allocated capacity or an initial capacity amount has been accepted in whole or in part, or rejected, through issuing a revised Offtake Capacity Statement (OCS). National Grid NTS proposed that the OCS is issued by 30 September each year.

National Grid NTS proposed to extend the current arrangements such that GDN users are able to apply on an annual basis for initial amounts of NTS offtake capacity at each of their NTS/LDZ offtakes beyond 30 September 2011 to 30 September 2012. National Grid NTS proposed that for 2008, GDN users would apply for initial amounts of NTS offtake capacity for gas year 2011/12 during the normal June/July application window.

In addition, under Modification Proposal 0198, amendments to previously allocated NTS offtake capacity amounts are proposed to continue on the same basis as the current arrangements over the transitional period. Table 1, below, outlines National Grid NTS's proposed timetable for the NTS offtake capacity registration process over the transitional period, as outlined in Modification Proposal 0198.

National Grid NTS stated that it would make determinations of any requests to amend capacity allocations in accordance with the Incremental Exit Capacity Release (IExCR) Methodology Statement. National Grid NTS intends to consult on the changes to the current IExCR to extend its applicability beyond 30 Septembers 2011 up to 30 September 2012.

In addition, National Grid NTS proposed that Assured Offtake Pressures are set for each NTS/LDZ offtake at the same level as specified in the previous gas year, subject to any revisions agreed in accordance with existing mechanisms under the Transportation Principal Document (TPD).

Table 1 Proposed timetable for NTS offtake capacity registration over the revised transitional period

Application Window	Requests for Amended Capacity – Relevant Gas Years	Requests for Initial Capacity – Relevant Gas Year	National Grid NTS Response to Capacity Request
June/July 2008	2008/09 2009/10 2010/11	2011/12	30 September 2008
June/July 2009	2009/10 2010/11 2011/12		30 September 2009
June/July 2010	2010/11 2011/12		30 September 2010
June/July 2011	2011/12		30 September 2011

National Grid NTS also recognised that shipper users at NTS supply points and NTS connected system exit points (CSEPs) can only formally register NTS exit capacity

requirements under the current UNC provisions for shorter periods, and closer to the gas flow day compared to the proposals set out above for GDNs. However, National Grid NTS stated that shipper users and/or developers are able to “reserve” future capacity requirements that would require investment in the NTS via the execution of an Advanced Reservation Capacity Agreement (ARCA).

At the Modification Panel meeting of 20 March 2008, of the ten voting members present, capable of casting ten votes, ten votes were cast in favour of implementing Modification Proposal 0198. Therefore the panel recommended implementation of the Proposal.

The Authority’s decision

The Authority has considered the issues raised by the Modification Proposal and the Final Modification Report (FMR) dated 20 March 2008. 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 FMR⁶. The Authority has concluded that:

1. Implementation of the Modification Proposal will better facilitate the achievement of the relevant objectives of the UNC⁷; and
2. Directing that the Modification be made is consistent with the Authority’s principal objective and statutory duties⁸.

Reasons for the Authority’s decision

The Joint Office consulted on Modification Proposal 0198 in February 2008 and received twelve responses. Ten respondents supported implementation of Modification Proposal 0198 and two respondents offered qualified support for its implementation. Ofgem agrees with the proposer and the majority of respondents to the consultation document that this Modification Proposal better facilitates achievement of each of the Relevant Objectives in Standard Special Condition A11, paragraphs 1(a) and 1(b) respectively.

Ofgem considers that by enabling GDNs to register their capacity requirements beyond September 2011 this should allow National Grid NTS to undertake more informed investment decisions and thereby better facilitates the efficient and economic operation of the pipeline system (paragraph 1 (a)).

In addition, Ofgem agrees that the proposal should enable National Grid NTS and GDNs to formally confirm NTS/ LDZ offtake capacity levels which in turn should support their respective investment decisions beyond September 2011, thereby better facilitating the co-ordinated, efficient and economic operation of the combined pipe-line system (paragraph 1(b)).

Ofgem is mindful of the ongoing uncertainty surrounding the continued use of a sunset clause related to enduring offtake arrangements but we believe that this is necessary to enable a full reconsideration of all the relevant modification proposals concerning the future shape of NTS exit arrangements. On 27 February 2008⁹, we issued an open letter

⁶ UNC Modification Proposals, Modification Reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁷ 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

⁸ 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.

⁹ “UNC 0116: enduring offtake – update on next steps following the Competition Commission’s decision”, 27 February 2008. Available at: www.ofgem.gov.uk

to all interested parties concerning the next steps following the CC decision. In this letter, the Authority reaffirmed its proposed scope of reconsideration of the various modification proposals and the Authority's planned timetable for undertaking this process and reaching a final decision on the various modifications. This should allay the concerns of those parties who expressed concern over the continuing regulatory uncertainty that this sunset clause extension involves.

A number of respondents noted the interaction between NTS Exit Reform and UNC Modification 90¹⁰ as this removes Section 15 of the Offtake Arrangements Document which currently allows NGG NTS to require GDNs to interrupt at LDZ level to deal with a constraint on the NTS. In particular, it was noted that a delay in enduring reform would result in GDNs having to make an estimate of the costs of the relevant NTS exit capacity if they wish to enter into interruptible contracts with contract periods from October 2012 onwards. Ofgem believes that under the current transitional arrangements that GDNs already have to broadly anticipate the costs of the relevant NTS exit capacity. Ofgem considers that future implementation of enduring offtake reform will help to provide clarity in relation to NTS exit costs. One respondent also sought clarity as to how the GDPCR capacity outputs incentive will be impacted by this Modification Proposal 0198 and whether implementation of this proposal may create some unexpected gains for the GDNs. We have considered the matter and believe that any gains that GDNs might make under the exit capacity incentive through increased interruptions would be offset by the increased cost to the GDNs in ensuring they are covered for interruptible capacity.

Some respondents questioned the extent to which the approval of UNC Modification 90 affects NGG's safety case. NGG are still exploring this issue, though no major concerns have been raised to date. We would expect any effects that it might identify to be dealt with in an appropriate and timely manner.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that Modification Proposal UNC 0198: Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points be made.



Steve Smith
Managing Director, Networks

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

¹⁰ UNC Modification Proposal "Revised DN Interruption Arrangements". Implemented on 1 April 2008.