

Modification proposal:	Uniform Network Code (UNC): Introduction of an Enduring Annual NTS Exit (Flat) Capacity Invitation Letter (UNC249)		
Decision:	The Authority¹ directs that proposal UNC249 be made²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	03 June 2009	Implementation Date:	03 June 2009

Background to the modification proposal

UNC 195AV proposed to introduce new arrangements for taking gas off the National Transmission System (NTS), otherwise referred to as 'offtake' or 'gas exit'. The prospect of introducing new exit arrangements was first raised during the process which preceded the sale by National Grid Gas (NGG) of some of its gas distribution networks (GDNs); this sale was completed in June 2005.

Prior to the sale of the networks, the interface between the transmission and the distribution networks was managed within a single company. However, the sale of the GDNs implied that, in the future, this interface would be between separately owned transmission and distribution businesses³. At the time of the transaction, the Authority considered it important that through the change of ownership, the sale did not create the potential for inefficient investment or operational decisions to occur on either the transmission or the distribution networks. In light of this concern, the Authority sanctioned the introduction of a proposed enduring offtake framework as a condition of consent to the sale of the GDNs.

On 19 January 2009 the Authority approved UNC0195AV⁴, which introduced the NTS enduring offtake regime with effect from 1 April 2009. As part of these arrangements, Users were notified of an initial amount of Enduring Annual NTS Exit (Flat) Capacity they had been granted based on the sum of their maximum firm and interruptible capacity held in gas year (07/08) at each NTS exit point and notified.

Users will be able to apply for Enduring Annual NTS Exit (Flat) Capacity rights at any new or existing NTS exit point during a July annual application window in gas year Yn for use from gas year Yn+4, Yn+5 or Yn+6 onwards. Users will also be able to apply for Enduring Annual Nts Exit (Flat) Capacity rights at any new or existing NTS exit points via ad-hoc applications, which can be made within the period 1 October to 30 June each year (i.e. the period outside of the annual application and capacity allocation process).

The modification proposal

NGG NTS is required under the UNC to publish an annual capacity notification to Users no later than 28 days before the commencement of the Annual Application Window; this

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 Four of the eight gas distribution networks were sold by National Grid to third parties in 2005

⁴ UNC0195AV "Reform of the NTS offtake arrangements (UNC 0116V, 0116BV, 0116CVV, 0116VD, 0116A) and Introduction of Enduring NTS Exit capacity Arrangements (UNC 0195 and 0195AV)", approved on 19 Jan 09

notification would specify all NTS exit points at which Users will be able to place applications, and the Remaining Available NTS Exit (Flat) Capacity (ie, unsold capacity) available at each NTS Exit Point. NGG NTS considers that there is an anomaly in the current drafting of this provision of the UNC in that it does not extend to the Enduring Annual NTS Exit (Flat) Capacity that would be released for the years Yn+4, Yn+5 or Yn+6 onwards. Accordingly, there is no obligation on NGG NTS to publish an annual capacity notification prior to 1 July 2010.

This proposal therefore seeks to fulfil the intent of modification 195AV by modifying the UNC such that there is a clear obligation upon NGG NTS to publish a capacity notification in relation to the release of Enduring Annual NTS Exit (Flat) Capacity no later than 28 days prior to 1 July 2009. This notification would state:

- the Gas Years to which the enduring annual capacity notification relates, including Yn+4 to Yn+6 onwards;
- the NTS Exit Points to which the notification relates; and,
- the Remaining Available NTS Exit (Flat) Capacity for each of those Gas Years at each of those NTS Exit Points.

UNC Panel⁵ recommendation

At its meeting of 21 May 2009 the UNC modification panel voted unanimously to recommend the implementation of this modification proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 22 May 2009. 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 UNC249 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

We note that this proposal had unanimous support from respondents and the UNC modification panel. Whilst we are aware of nothing in the UNC or elsewhere that would have precluded NG from issuing the invitation letter to include gas years Yn+4, Yn+5 or Yn+6 onwards, we agree that it is best practice for all arrangements to be carried out in

⁵ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

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

⁸The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

accordance with the UNC. We therefore agree with those respondents who suggested that the implementation of this proposal would better facilitate Relevant Objectives (a) (d) and (f) for the reasons set out below.

Objective (a) (Standard Special Condition A11(1)(a)): the efficient and economic operation of the pipe-line system to which this licence relates.

The proposer and some of the respondents considered that the publication of the annual capacity notification will lead to more efficient signals from Users in relation to their capacity requirements as it will allow them to make better informed increase and/or reduction requests. We would agree with this assertion to the extent that the invitation letter contains information which is not already available to Users and would not otherwise have been released without this enabling modification.

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

The proposer and several respondents considered that the publication of the invitation letter would ensure a level playing field amongst all Users, ensuring that they have equal access to information relating to the remaining available NTS Exit (Flat) Capacity and at the same time. This information will act as a useful complement to the exit capacity baselines (ie, those capacities that NGG NTS is obliged to release at specific exit points), as it will reveal initialization levels (without identifying those parties to whom the capacity has been allocated), thereby allowing shippers to make better informed decisions as to the need for additional capacity at offtake points. To the extent that there may otherwise be asymmetry of information available to market players, we agree that the transparent publication of this information would be expected to facilitate a greater degree of competition between Users than may otherwise have been the case.

Whilst supporting the proposal, one respondent questioned the value of the information relating to gas years Y_{n+4} to Y_{n+6} as this is beyond the period when the system may be constrained and NGG NTS will have flexibility to invest and release further capacity where required. NGG NTS suggested that this information would be beneficial to Users as the amount of unsold capacity at each NTS Exit Point may affect future Transmission Operator (TO) commodity charges. However, another respondent suggested that only a very limited amount of costs should be recoverable through TO commodity charges; the proposal would therefore usefully shed light on the extent to which capacity costs are recovered from capacity charges, and therefore how cost-reflective those charges actually are. We would agree that the increased transparency resulting from the enduring offtake arrangements should lead to informed debate on exit charges.

Objective (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

We note that the implementation of UNC249 will ensure that the release of Enduring Annual NTS Exit (Flat) Capacity is consistent with the release of capacity through other entry and exit long term mechanisms, where the standard practice is to publish an invitation letter 28 days prior to the release mechanism being opened. While this initial release has been well trailed, in particular through the lead up to and eventual decision

on UNC195AV, as this release of Exit capacity is to be on an enduring basis we agree that it is appropriate to codify the publication arrangements within the UNC in order to ensure an appropriate level of market awareness in future years. We also consider that aligning the arrangements with those of other capacity release mechanisms will reduce complexity and lead to more efficient administration of the process, as well as increase User confidence in the arrangements.

Decision notice

In accordance with Special Standard Condition A11 of the Gas Transporters Licence, the Authority hereby directs that the modification proposal UNC249 be made, with immediate effect.

Stuart Cook
Director, Transmission

Signed on behalf of the Authority and authorised for that purpose