

Modification proposal:	Uniform Network Code (UNC): Allocation of Daily NTS Entry Capacity Within-Day (UNC 295)		
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:	6 August 2010	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The UNC includes rules which deal with the allocation of (firm) Daily NTS Entry Capacity within-day, subject to there being Available Daily Capacity. Currently, these rules do not specify when National Grid Gas NGG NTS must allocate such capacity after a bid has been submitted during the day. This leads to the possibility that a capacity bid in an auction is not considered for several hours after its submission. In practice, NGG NTS claims that bids are acted upon and met promptly, although this remains at its discretion.

The modification proposal

E.ON proposed UNC295 in May 2010 to clarify that any bids placed at an Aggregate System Entry Point (ASEP) within day will be processed within the hour and an allocation made or not made by NGG NTS, subject to the existing UNC rules. The modification obliges NGG NTS to initiate a capacity allocation period on the next hour bar (an hour bar is effectively the start of the next hour) where one or more valid bids have been submitted at an ASEP (subject to there being Available Daily Capacity).

The proposer states that this should remove a potential disadvantage to shipper users who have submitted capacity bids and who are awaiting allocations of Daily NTS capacity at an ASEP. Undue delay by NGG NTS and the resultant uncertainty may have adverse commercial implications for shipper users. For example, they may be unable to flow gas while waiting for NGG NTS to allocate capacity in response to their bid. All respondents to the consultation on the modification agreed that implementation would provide shippers with greater certainty regarding the availability of capacity.

The modification would not, however, change the actual amount of daily entry capacity that could be allocated.

UNC Panel³ recommendation

At the UNC Panel meeting on 17 June 2010, the nine panel members, capable of casting nine votes, voted unanimously to recommend implementation.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the updated Final Modification Report (FMR) dated 13 July 2010. The Authority has

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

considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁴. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁵; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁶.

Reasons for the Authority's decision

We consider that the modification will better facilitate achievement of the UNC relevant objectives as set out below.

Relevant Objective (d): so far as is consistent with paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers;

In our view, the key advantage is that the modification provides certainty for shippers that their capacity application is being considered in a timely manner, and so if they don't receive a response within the hour, they know that they need to take alternative measures to acquire capacity as necessary. All respondents agreed that implementation would provide shippers with greater certainty regarding the timely allocation of available capacity, therefore bringing potential competition benefits.

Several respondents stated that the modification will allow Users to achieve improved timeliness in the daily entry capacity allocation process. However, NGG NTS stated that the modification codifies existing procedures. As such, we consider that relatively minor timeliness advantages will be gained.

We also note that there would be benefits to new entrants relying on obligations within the UNC rather than relying on the discretionary nature of NGG NTS's experience and operating practice.

Relevant Objective (f): so far as is consistent with paragraphs (a) to (e) the promotion of efficiency in the implementation of the network code and/or unified network code.

We agree that the modification will promote this Relevant Objective by clarifying existing Daily NTS Entry capacity rules, and reducing the current scope for disagreement between shippers and NGG NTS in respect of when a daily capacity application must be considered by NGG NTS and the bid-for capacity allocated. Therefore, we see the codification of the existing processes as a benefit of this modification.

Advantages and disadvantages of implementation

In our view, the main advantages of implementing the modification are the greater certainty for shippers that their daily capacity requests are being considered in a timely manner, and the clarification of performance requirements from NGG NTS in this regard. We are unaware of any significant disadvantages associated with implementation, as

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁵ 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

⁶The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

NGG NTS is not expected to incur additional IT costs or resources requirements. The lack of an obligation on NGG NTS to notify shippers whose bid has not resulted in an allocation of capacity may be seen as a disadvantage, but this would apply equally to the circumstances following implementation of the modification and the existing situation.

User Pays charges

The modification is not classed as User Pays as there is no anticipated impact on UK Link systems. NGG NTS believes the modification clarifies its existing processes in accordance with current UNC rules and there will therefore be no system implications.

Conclusion

Ofgem considers that the primary impact of the modification is to codify the existing pattern of capacity bidding and release. This should lead to better clarity, greater timeliness in the provision of capacity and potentially improved competition.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 0295: Allocation of Daily NTS Entry capacity Within Day be made.

Stuart Cook
Senior Partner-Transmission and Governance

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