

Modification proposal:	Uniform Network Code (UNC) 0519: Harmonisation of Reference Conditions at Interconnection Points (UNC519)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	25 June 2015	Implementation date:	To be confirmed by the Joint Office and no later than 1 May 2016

Background

The final report of the European Commission's sector inquiry into competition in gas and electricity markets (published in January 2007) noted (amongst other things) the lack of effective competition in European markets.³

In response, a suite of legally binding European Union (EU) legislation, referred to as the Third Package, on European electricity and gas markets was introduced and adopted on 13 July 2009.⁴ The Third Package was transposed into law in Great Britain (GB) by regulations that came into force on 10 November 2011.

The Third Package created a new legal framework to promote cross-border trade. It requires a number of legally binding Guidelines and European Network Codes (ENCs) to be established and implemented.⁵ Taken together, these aim to promote liquidity, improve integration between Member States' gas markets and promote the efficient use of interconnectors to ensure that gas flows according to price signals, ie to where it is valued most.⁶ These EU legislative requirements take priority over GB domestic legislation and associated regulations and codes, including the Uniform Network Code (UNC).

The ENC related to this modification is the Interoperability and Data Exchange network code (INT). This was published in the Official Journal of the European Union on 30 April 2015 and applies from 1 May 2016.⁷ The INT code covers ways in which network operators manage gas flows across borders, deal with differences in gas quality and exchange data between themselves and market players.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ Inquiry pursuant to Article 17 of Regulation (EC) No 1/2003 into the European gas and electricity sectors (Final Report): http://ec.europa.eu/competition/sectors/energy/2005_inquiry/index_en.html

⁴ In relation to gas, the Third Package includes Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the "Gas Directive") and Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (the "Gas Regulation").

⁵ See Article 6 (Establishment of network codes) of the Gas Regulation which sets out the process for establishing EU-wide network codes for gas.

⁶ See Article 8(6) of the Gas Regulation for the areas required to be covered by network codes.

⁷ Commission regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1430734293842&uri=OJ:JOL_2015_113_R_0003

The measurement of a quantity of gas is sensitive to several factors and one aspect of the INT code is to provide harmonisation of the reference conditions for the calculation of volume and calorific value at Interconnection Points (IPs). One of these conditions is temperature. In order to get consistency, measurements are corrected using constant reference temperatures. This provides a consistent approach to calculating volume and calorific value (which is in turn used to derive a measure of energy). Although these reference conditions fundamentally relate to physical measurement, commercial energy figures such as capacity bookings, nominations and allocations can also be quoted using a particular reference condition. This is recognised by the UNC General Terms (GT) Section C 'Interpretation'. The GB regime currently uses reference conditions of 15°C for both volume and calorific value (hereafter referred to as '15/15').

These reference conditions currently vary across Europe. INT requires the use of reference conditions of 0°C for volume and 25°C for calorific value (hereafter referred to as '0/25') for data exchange and publication at IPs.

The modification proposal

UNC519 was raised by National Grid Gas plc (NGG) on 7 November 2014. It seeks to implement the 0/25 reference conditions at GB IPs. It will do this by making changes to the European Interconnection Document (EID), which forms part of the UNC, to obligate the use of 0/25 reference conditions at IPs only. The consequences of making this modification are that:

- Capacity will be made available and booked by users on a 0/25 basis
- NGG will not convert either existing or future user bookings within Gemini⁸
- NGG will not seek to make any change to its baseline capacity obligations at the IPs as a consequence of this Modification
- User nominations (the amount of gas to be flowed on or off the system) will be submitted at 0/25 conditions
- NGG and its adjacent TSOs will conduct the matching of user nominations at 0/25 conditions
- Confirmed (matched) nominations will be provided to users on a 0/25 basis
- User allocations (the amount of gas determined as having been put on or taken off the system) will be determined on a 0/25 basis
- GB user balancing will be maintained at 15/15 by adding an additional quantity of gas (an 'IP balancing allocation') to IP users' imbalance accounts in Gemini equal to the difference between the 0/25 allocation and the value of that energy at 15/15 reference conditions using a fixed conversion factor of 0.9990

Article 13(3) of INT says that in cases where one Member State is connected to only one other Member State, the adjacent TSOs and the parties they communicate with may agree to continue to use other reference conditions for data exchange in connection with Regulation (EC) No 715/2009, subject to the approval of their national regulatory authorities. NGG intends to seek such an exemption for the Moffat IP. If granted, the proposed changes made by UNC519 would only apply at the Bacton IP.

NGG considers that UNC519 facilitates UNC relevant objective (g) by implementing the use of 0/25 reference conditions at IPs as required by INT.⁹

⁸ Gemini is NGG's system for gas capacity management, energy balancing and associated invoice processing.

⁹ UNC relevant objective (g): Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

UNC Panel¹⁰ recommendation

At the UNC Panel meeting on 21 May 2015, the UNC Panel unanimously considered that UNC519 would better facilitate the UNC objectives and the Panel therefore recommended its approval. The UNC Panel considered that implementation of the modification would have a positive effect on objective (g) since it would enable compliance with the relevant parts of the INT Code.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 May 2015. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.¹¹ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;¹² and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹³

Reasons for our decision

We consider this modification proposal will better facilitate UNC objective (g) and is neutral in relation to the other relevant objectives.

(g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

The FMR states that this modification will facilitate compliance with European legislative requirements by implementing the requirements of INT to use reference temperatures of 0/25 for capacity and nominations processes at the IPs. We agree with this view and consider relevant objective (g) is better facilitated by the implementation of UNC519.

One respondent to the UNC519 industry consultation stated that it was regrettable that implementation of the INT Code will create two GB systems (old system without modifications and a new system for the IP with the alignment of the gas day and the new reference conditions), thus complicating operational management and generating high operational costs. In its view the most suitable solution for a shipper is the application of 0/25 reference conditions to all GB system points instead and to put in place a special process for IP with an IP 'balancing allocation' which corrects to 15/15. Another respondent stated that the modification is a pragmatic solution to reference condition changes required at IPs by INT and costs are expected to be low.

¹⁰ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

¹¹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

¹² As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹³ 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 as amended.

INT requires the 0/25 reference conditions to be used for any data exchange and data publication related to Regulation (EC) No 715/2009 at IPs only. There is no requirement in INT for this to be implemented across all GB system points. Furthermore we have not received any evidence that the impacts of operating two systems within GB exceed the costs of implementing the 0/25 reference conditions at all GB system points. We therefore agree that UNC519 is a pragmatic means of implementing the relevant parts of INT.

We have noted that there are two minor housekeeping changes to the legal text that need to be addressed. These are the numbering of paragraphs in EID Section A and formatting within Transition Document Part VA. We expect NGG to address these as soon as is practicable.

Implementation of UNC519

The proposer stated in response to the consultation that while no specific implementation timescales are proposed, they are unable to deliver the IT system changes to facilitate this modification until Spring 2016. We do not specify an implementation date but note that INT applies from 1 May 2016 and NGG is required to be compliant from that point.

We understand that NGG and IUK will commence matching nominations at 15/15 reference conditions on 1 October 2015. IUK and NGG will then 'switch' to matching shipper nominations at 0/25 reference conditions once the system changes are made.

NGG has confirmed that BBL is unable to accommodate matching at 15/15 on a temporary basis prior to implementation of UNC519. Therefore, 0/25 matching will need to take place from 1 October 2015, meaning that shippers entering gas into the NTS through the BBL IP will, temporarily, be marginally 'under-allocated' compared to the 15/15 allocations that will apply at all other NTS entry and exit points. We understand this 'under-allocation' will be resolved through the NGG-BBL interconnection agreement until UNC519 is implemented in spring 2016.

As stated above, Article 13(3) of INT says that in cases where one Member State is connected to only one other Member State, the adjacent TSOs and the parties they communicate with may agree to continue to use other reference conditions, subject to the approval of their national regulatory authorities. NGG intends to seek such an exemption for the Moffat IP. If granted before implementation of UNC519, the current 15/15 conditions will endure at Moffat.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC519: '*Harmonisation of Reference Conditions at Interconnection Points*' be made.

Paul Branston
Associate Partner, Gas Networks

Signed on behalf of the Authority and authorised for that purpose