

Modification proposals:	Uniform Network Code (UNC) 098 and 098a: Modifications to Codify Emergency Curtailment Quantity (ECQ) Methodology		
Decisions:	The Authority ¹ has decided to reject 098 but directs that that proposal 098a be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	24 November 2006	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposals

The Emergency Curtailment Quantity (“ECQ”) is the volume of gas associated with actions taken by National Grid Gas to curtail gas supply in the event of a Gas Deficit Emergency (“GDE”). There is a methodology, published by the relevant gas transporters, that is used to calculate the ECQ (the “ECQ methodology”) in such an event. Once determined, the ECQ is then the subject of a title trade between National Grid Gas National Transmission System (NGG NTS) and the affected user³.

The modification proposals

Modification proposal 098 was raised by E.ON UK plc on 12 July 2006 (“Modification 098”) and Modification proposal 098a was raised by National Grid on 27 July 2006 (“Modification 098a”). The two proposals both seek to define a clear and consistent way of governing the ECQ methodology. In addition to this, Modification 098 (but not 098a) includes changes to the methodology used to calculate the ECQ.

UNC 098 Original Modification Proposal

Currently the methodology to calculate the ECQ sits outside of the UNC arrangements. Instead, the methodology is published by the relevant gas transporters on the Joint Office of Gas Transporters website⁴ and only gas transporters can amend it. Modification 098 proposes that the ECQ methodology is included within the UNC. Amongst other things, this would allow all UNC signatories to propose amendments to the ECQ methodology⁵.

Modification 098 also proposes an adjustment to the current methodology for calculating the ECQ. It proposes that when Offtake Profile Notifications⁶ (“OPNs”) are not available for use in the calculation, Nominations⁷ should be used to calculate the ECQs. Nominations (like OPN’s) would only be used for ‘day one’ of an emergency for calculating the ECQ. The details of the proposed modifications to the ECQ methodology are set out in the Modification 098 and 98a Modification reports.

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 These arrangements were introduced as part of approved modification proposal 044 [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/12353_20305.pdf] and later assessed under modification proposals 054 and 054a

[http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14520_UNC054D.pdf].

⁴ <http://www.gasgovernance.com/NR/rdonlyres/4DD5EE46-7116-4DA6-9B60-0A06F991A794/9256/ECQMethodologyv11.pdf>

⁵ In accordance with the terms of the code modification process set out in the UNC.

⁶ For definition see TPD C 1.1.1.2(a) of UNC

⁷ For definition see TDP J 4.5.1 of UNC

UNC 098a Alternative Modification Proposal

Modification proposal 098a does not seek to make amendments to how the ECQ is calculated⁸. However, it does seek to include the current ECQ methodology within the UNC governance arrangements. Under this alternative proposal, the ECQ methodology would be referenced as a UNC ancillary document, whereby changes to it proposed by a party to the code would be placed under the oversight of the UNC committee (the "committee"), with recourse to the UNC's modification procedures if the committee could not make a determination. Therefore, the committee could propose and implement changes to the ECQ methodology. However, Modification 098a also proposes that at any stage of the change process, any UNC party could propose a change to the methodology using either the committee route or the modification process route.

Recommendation of the UNC Panel⁹ (the "Panel")

At its meeting held on 19 October 2006, the Modification Panel did not recommend implementation either of Modification 098 or Modification 098a.

At that meeting, the Panel also considered which of the two proposals would better facilitate the achievement of the relevant objectives of the UNC¹⁰. This was not determined. There was no Panel Majority with the five Shipper voting members favouring Modification 098 and the five Transporter voting members favouring Modification 098a.

The Authority's decision

The Authority has considered the issues raised in Modification 098 and Modification 098a and in the Final Modification Reports in respect of each of them ("FMRs")¹¹. The Authority has also considered and taken into account the responses received to the FMR's, as well as the position of the UNC panel following its meeting on 19 October 2006. The Authority has concluded that:

1. Implementation of **Modification 098a** will better facilitate the achievement of the relevant objectives of the UNC. We note that Modification 098 is also better than the existing code baseline against some of the relevant objectives. However, for the reasons outlined below, we have concluded that on balance Modification 098a provides the better achievement of the code objectives; and
2. Directing that the ECQ methodology be made part of the UNC governance arrangements in accordance with UNC 98a is consistent with furthering the Authority's principal objective and statutory duties¹².

Reasons for the Authority's decision

In assessing Modification 098 and Modification 098a, we have considered the proposals against all of the objectives. However, we concur with the Panel and respondents that

⁸ As defined in version 1.1 of the ECQ Methodology [<http://www.gasgovernance.com/NR/rdonlyres/4DD5EE46-7116-4DA6-9B60-0A06F991A794/9256/ECQMethodologyv11.pdf>]

⁹ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

¹⁰ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://62.173.69.60/document_fetch.php?documentid=6547

¹¹ These reports are dated 20 October 2006. UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹² The Authority's principal objective and general statutory duties are set out in the Gas Act 1986 (as amended).

neither objective (c) nor objective (e) are relevant to consideration of these proposals. The reasons for our decision in relation to the remaining code objectives are outlined below.

Relevant Objective (a) – the efficient and economic operation of the pipe-line system to which this licence relates

As outlined above, both proposals seek to amend the governance arrangements for the ECQ methodology. We agree with the proposers and those respondents who argued that increased certainty and confidence will be achieved by having a consistent methodology placed within the UNC governance arrangements. The additional ongoing consistency across all Transporters' networks will better achieve relevant objective (a).

As well as proposing changes to the governance arrangements, Modification 098 also proposes changes to the ECQ methodology. While we acknowledge the views of all respondents¹³, we do not consider that there has been sufficient analysis provided on the costs and benefits of the proposed changes to the methodology to facilitate the assessment of it against relevant objective (a).

The only information we received on costs was initial high level analysis from one respondent indicating that the cost of implementing the proposed methodology would be around £200,000 and would take 6 months. As such, while we agree that, compared to the baseline, the proposed governance arrangements under Modification 098 would better facilitate relevant objective (a) in the absence of further, more detailed, information on the costs and benefits of the proposed changes to the methodology we are unable to say whether, in aggregate, the proposed changes would also better facilitate this objective.

Ofgem's view against the relevant objective

Ofgem considers that the proposed governance arrangements for both Modification 098 and 098a would better facilitate the achievement of relevant objective (a).

Overall Modification 098a will better facilitate the achievement of relevant objective (a) of the UNC when compared to both the existing baseline and Modification 098. This is because a fuller assessment of the changes to how the methodology is calculated under Modification 098 has not been possible due to the lack of analysis provided regarding the costs and benefits of including nominations into the arrangements.

Relevant Objective (b) – so far as is consistent with sub-paragraph (a), the coordinated efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters

We believe that a common methodology for calculating the ECQ for all Transporters is appropriate. Differences in how this volume is calculated by Transporters could, potentially, lead to perverse outcomes across the GB gas network during a gas emergency. That is, this could have the potential for some users to have their ECQ calculated differently to other customers, with no clear reason, which would result in inefficiencies at a critical time for the gas network.

¹³ The views of the respondents include those who felt that the proposed methodology would provide a more accurate estimation of the ECQ for sites where OPN's are not available. Other respondents highlighted that nomination data is not currently held by Transporters, and hence it would be necessary to make costly changes to include them.

Both of the modifications propose changes to how the ECQ methodology is governed to mitigate this risk. As such, we consider that Modification 098a, and those elements of Modification 098 that seek to amend the governance arrangements for the methodology, will better facilitate the achievement of relevant objective (b).

As noted under objective (a) it is not clear that the additional changes proposed to the methodology as part of Modification 098 have been sufficiently tested. We would welcome further industry assessment of these, or other, proposed changes.

Ofgem's view against the relevant objective

By developing a common methodology and clear governance arrangements for how all Transporters calculate an ECQ, we consider that both Modification 098 and Modification 098a would better facilitate the achievement of relevant objective (b). However, we do not consider that Modification 098 includes sufficient evidence to demonstrate that the change to the calculation methodology proposed by it would better facilitate the achievement of relevant objective (b), and we therefore prefer the changes proposed as part of Modification 098a.

Relevant Objective (d) – so far as 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 (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

As noted, we agree with those respondents that consider that the methodology used to calculate the ECQ should be placed under the governance of the UNC. A common ECQ methodology would ensure that loads are treated consistently across different Transporters. It removes the risk that different methodologies could be applied by different Transporters, which could result in Shipper uncertainty as to the treatment of particular loads connected to the different networks.

Ofgem's view against the relevant objective

While recognising that a single ECQ methodology is already in place, Ofgem considers that making changes to it subject to UNC governance procedures would better facilitate the achievement of relevant objective (d). It does this by providing increased assurance to Shippers that loads will be treated in the same way by all Transporters. As such, both Modification 098 and Modification 098a would better facilitate the achievement of this objective.

Relevant 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;

Modification 098a references the ECQ methodology as an ancillary document to the UNC. In this proposal, changes to the methodology could therefore be proposed by any party to the UNC. This contrasts to the changes proposed in Modification 098 in which the methodology is "hard coded" into the UNC itself and therefore subject to changes only through the normal modification procedures. Therefore, Modification 098a offers the additional feature that a majority vote of the UNC committee can make changes to the methodology. This approach would provide greater flexibility to parties than that

proposed in Modification 098, as it would allow for self governance of the methodology in areas where industry can reach a consensus. However, the modification process would still be open to all UNC signatories if required and/or if parties considered there was a need to hard-code aspects of the methodology within the code itself.

Ofgem's view against the relevant objective

Ofgem agrees with the respondents that Modification 098a would better facilitate the achievement of relevant objective (f) through promoting greater transparency and accountability in the administration of the ECQ methodology. 098a improves on the governance arrangement currently in operation by ensuring that any party to the UNC can suggest changes at any time, either through the committee route, or through the modification route. In our view the ability of the UNC committee to handle uncontroversial alterations to the ECQ methodology as proposed in 098a, furthers Ofgem's wider statutory duty of ensuring best regulatory practice.

Conclusion

We consider that the both modification proposals offer potential benefits, however on balance we believe that Modification 098a would better facilitate achievement of the Objectives and further our principal objective and wider statutory duties.

The lack of analysis provided on likely cost and benefits of the changes to the calculation methodology proposed in Modification 098 have prevented us from fully assessing these proposed changes against the relevant objectives. In taking this decision, this does not "close the door" to future changes along the lines of the calculation methodology suggested in Modification 098. However we consider that further evidence and analysis would be required in order to be able to make an informed decision in this regard. We would expect any such analysis to look not only at the potential costs and benefits of the change but to also consider how a change to the methodology might or might not influence the behaviour of market participants - for example, to ensure that parties are incentivised to submit accurate nominations at all times.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC098a: Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology be made.



Steve Smith

Managing Director, Markets

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