

Modification proposal:	Uniform Network Code (UNC)189: Amendment to the QSEC Auction Timetable (UNC189)		
Decision:	The Authority ¹ has decided to reject this proposal		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	13 March 2008	Implementation Date:	N/A

Background to the modification proposal

National Grid Gas NTS (NGG NTS) holds annual Quarterly System Entry Capacity (QSEC) auctions. This is for the allocation of up to 90% of entry baseline rights to flow gas onto the National Transmission System (NTS) from between 2 to 16 years in advance and for the provision and receipt of signals for the release of any incremental obligated entry capacity. These QSEC auctions are currently held every September.

The gas entry baseline capacity figures, which determine the amount of capacity offered at the QSEC auction, are currently under review by Ofgem².

NGG NTS also develops its annual Transporting Britain's Energy (TBE) forecasts in May/June each year for presentation to industry in July.

The Incremental Entry Capacity Release (IECR) methodology statement states that release of incremental obligated entry capacity is subject to a default lead time of 42 months. As the current IECR methodology was approved before finalisation of NGG NTS's licence drafting it anticipated that the application of the default 42 month lead time would be outlined in NGG NTS's licence, with the caveat that if this was not specified, the lead time would apply following completion of the capacity allocation process. However, paragraph 3(g) of Special Condition C8D in NGG NTS's licence states that the default lead time is 42 months from the first day of the month following the end of the annual invitation period, which is defined in the Uniform Network Code as the period of ten business days when the QSEC auction bidding can take place. The IECR methodology statement notes that as capacity is sold in quarterly blocks in the QSEC, obligated incremental entry capacity is therefore made available at the start of the nearest quarter following the expiry of the 42 month period. The holding of the QSEC auctions in September, therefore, does not allow for alignment of the delivery of incremental obligated entry capacity to the beginning of the gas year, starting in October.

Furthermore, QSEC auction results are not readily available to be used as inputs into the TBE process since NGG NTS presents the TBE forecast to industry in July whilst the QSEC auction results are not usually published until late November.

The modification proposal (the 'proposal')

NGG NTS proposes that the QSEC auctions are held in April each year as opposed to September. It argues that this would allow for alignment of the release of incremental obligated entry capacity with the start of the gas year, allow for the provision of the

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 See

<http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Documents1/071220%20baseline%20consultation%20FINAL.pdf>

QSEC auction signals to be used immediately in the TBE consultation process (which should enhance this process) and would provide an immediate opportunity for shippers to bid against any revised baselines should these be revised following the current baseline review process.

There is a provision in the proposal such that if the proposal and the potential revision to baselines are implemented:

- after 1 April 2008 but before 6 May 2008 then the 2008 QSEC auction is to be held in May 2008
- after 6 May 2008 then QSEC auctions will continue to be held in September each year

The proposer considers that the proposal would better facilitate the achievement of the following relevant objectives³:

- The efficient and economic operation of the pipe-line system to which this licence relates
- The securing of effective competition between relevant shippers

UNC Panel⁴ recommendation

At the modification panel meeting held on 7 February 2008, of the 10 voting members present, capable of casting 10 votes, 8 votes were cast in favour of implementing UNC189. The panel therefore recommended implementing UNC189.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 7 February 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 FMR⁵.

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC⁶.

Reasons for the Authority's decision

The efficient and economic operation of the pipe-line system to which this licence relates

One respondent considered that the proposal would allow NGG NTS to make full use of the build period prior to capacity delivery. It argued that this would result in greater certainty that incremental obligated entry capacity would be available by the date requested.

³ The full list is set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

⁴ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁵ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁶ 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

Another respondent expressed concern over the lack of clarity on how the investment lead time would operate in practice and with possible NGG NTS discretion over when exactly incremental obligated entry capacity would be released.

As the default lead time is 42 months from the first day of the month following the annual invitation period, if a QSEC auction was held in April 2008 then the default investment lead time would be 42 months after 1 May 2008 i.e. 1 November 2011. However, as capacity is sold in quarterly units at the QSEC auction capacity is only made available from the start of the nearest quarterly period following expiry of the 42 month lead time i.e. 1 January 2012. Therefore, an April QSEC auction would not result in the investment lead time period aligning with the start of the gas year on 1 October; for this to be the case the QSEC auction would have to be held in March.

Ofgem sees merit in trying to align the investment lead time period with the start of the gas year as this would, amongst other things, result in the latter part of the investment lead time period, which mainly consists of construction work, coinciding with the summer months which would be beneficial for delivering the investment on time. However, due to the definition of the investment lead time in NGG NTS's licence, the proposal would not allow for such an alignment to take place.

So far is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's objectives under this licence

A number of respondents raised the concern that if there was to be a QSEC auction in April or May 2008 then this would not incorporate the substitution mechanism which NGG NTS is required to have in place, under its licence, by 2 June 2008.

However, on 4 March 2008 the Authority published a direction⁷ delaying the date by which NGG NTS must have an approved entry capacity substitution methodology in place from 2 June 2008 to 6 April 2009. Ofgem, by giving NGG NTS an extension to when it must have a substitution mechanism in place does not share this concern that the 2008 QSEC auction will not incorporate substitution.

Four out of the twelve respondents to the consultation gave qualified support to UNC189 with the main reason for qualification being that the potential revision to baselines should be finalised prior to an April/May 2008 QSEC.

On 8 February 2008 Ofgem published an open letter⁸ where it outlined revisions to the timeline for the baseline review. This anticipated that the potential revisions to baselines would be implemented by 1 July 2008. As the potential revision to baselines are not going to be implemented until 1 July 2008 then the support of three of the respondents for UNC189 is removed.

Ofgem is of the view that holding a QSEC auction prior to the potential revision to baselines being implemented would create uncertainty if any of the baselines were to be changed as a result of the consultation. This would not be the most efficient means of discharging NGG NTS's licence objectives.

⁷ See <http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Documents1/Direction%20issued.pdf>

⁸ See http://www.ofgem.gov.uk/Networks/Trans/GasTransPolicy/Documents1/080208_Baseline%20Timetable%20Open%20Letter.PDF

Furthermore, as potential revisions to baselines are to be implemented after 6 May 2008 then the proposal would result in QSEC auctions continuing to be held in September each year. Therefore, the proposal would not actually change the current arrangements and so would not improve the relevant objectives.

So far is consistent with sub-paragraphs (a) to (c) the securing of effective competition between (i) relevant shippers

Two respondents considered that effective competition between shippers would be more effectively secured by UNC189. They stated that this would result from alignment between the investment lead time and the start of the gas year, plus the immediate opportunity shippers would have to bid against any revisions to baselines.

Ofgem does not share this view. As described above, UNC189 would not effectively align the investment lead time with the start of the gas year nor would it give shippers an immediate opportunity to bid against any revised baselines since potential revisions to these are only anticipated to be implemented by 1 July 2008.

Ofgem agrees with the aim of UNC189 of holding the QSEC auction such that the investment lead times and the start of the gas year are aligned and would encourage the industry to take necessary steps for such an alignment to be in place. However, with an April 2008 QSEC auction, UNC189 would result in delivery of any incremental obligated entry capacity on 1 January 2012, not 1 October 2011 when the gas year begins. In order to achieve such alignment a March 2008 QSEC auction would have been required. Ofgem also considers that since potential revisions to baselines is scheduled to be implemented after 6 May 2008 then the proposal, due to the provisions made in it, would not result in any changes to when the QSEC auctions are held, as is the aim of the proposal.



Robert Hull
Director of Transmission

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