

Modification proposal:	Uniform Network Code (UNC) 247: Alignment of interruption application rules for annual and ad-hoc applications (UNC247)		
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:	24 April 2009	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Interruptible capacity is used by the Distribution Networks (DNs) as a system management tool which, alongside line pack, pipeline reinforcement and incremental National Transmission System off take capacity, helps them manage their licence obligations³ to economically and efficiently meet the gas transportation needs of customers connected to their pipeline network.

On 1 April 2008 the Authority directed the implementation of UNC modification 090 'Revised DN Interruption Arrangements'. That modification sought to give much greater control to the GDNs over the quantity and location of interruption purchased, while customers would be able to offer terms for interruption that reflect the value they place on the interruption rather than have to accept a uniform price based on capacity charges.

Following the implementation of UNC090 the arrangements for requesting a switch from Firm to Interruptible status is only available via the interruptible application process, rather than being automatically available above a certain capacity threshold. DNs are required to invite applications for interruptible capacity each year, currently at least three years ahead of the Applicable Gas Year, i.e. the Annual Interruption Invitation from Gas Years Y+4 to Y+8. However, DNs are also permitted to tender for interruptible rights over a shorter timescale via the Ad-Hoc Invitation process, the timescales for which are at the DNs discretion.

DNs are permitted to reject an application for interruptible capacity if it is not required in order to maintain its required transportation capability.

The modification proposal

UNC247 seeks to align the processes under which DNs operate when seeking bids from Users for Interruptible rights on their networks, such that the same Annual Interruption Invitation can extend from Y+1 through to Y+8. However, as now, whereas DNs will be required to invite offers for years Y+4 to Y+8, invitations for Y+1 to Y+3 will be on a discretionary basis.

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 Standard Special Condition A9 'Pipe-line System Security Standards': http://epr.ofgem.gov.uk/document_fetch.php?documentid=14191 and Standard Special Condition D5 'Licensee's procurement and use of constraint management services': http://epr.ofgem.gov.uk/document_fetch.php?documentid=13938

UNC Panel⁴ recommendation

At the Modification Panel meeting held on 16 April 2009 the 10 Voting Members present unanimously rerecommended 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 24 April 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 FMR⁵. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁶; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

We note the unanimous support for this proposal from the six respondents to the Joint Office's consultation and from the UNC modification Panel. The suggested benefits of the proposal included the removal of an unnecessary secondary process and the potential for an increased take up of interruption, avoiding the need for network reinforcement; these are considered against the relevant objectives below. There were no disadvantages identified with this proposal. Like the proposer and respondents, we have considered this proposal against relevant objectives a) and f). We do not consider any of the other relevant objectives are impacted.

a) the efficient and economic operation of the pipeline system

The proposer considers that this proposal would better facilitate this objective by giving DNs as much time as possible to potentially accept interruption bids in the Y+1 to Y+3 timeframe and therefore reduce the necessity to alternatively reinforce its network or conduct secondary invitations. The proposer contends that this will avoid inefficient and unnecessary capital expenditure. One other respondent agreed with this view.

We would agree that this proposal may better facilitate this objective, but only to the extent that it will allow the DN to realise interruption offers that would not otherwise have been available through the Ad-hoc process. One respondent suggested that the appetite from customers for the interruption product has been limited. The relative success of the tender process absolutely depends upon the level of both customer and shipper engagement. Whilst the demand for the initial offering may have been limited, this may have been as much to do with the relatively low level of market awareness and the extent to which shippers promoted the tender opportunities to customers as the product itself. We consider that the Annual invitation will have a greater degree of

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

⁷ 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.

certainty and clarity than the Ad-hoc process. Its regularity should contribute to raising awareness amongst consumers and is therefore likely to increase the degree of participation in future tender exercises. If this increased participation leads to an increase in acceptable offers, further network reinforcement may be avoided.

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.

A common theme amongst respondents was that the implementation of this proposal would be more efficient than running two separate tender processes. We would generally agree with this view, but note that this proposal does not remove the DNs ability to pursue an Ad-hoc invitation if they wish.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 247: '*Alignment of interruption application rules for annual and ad-hoc applications*' be made.

Rachel Fletcher
Director, Distribution

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