

Modification proposal:	Uniform Network Code (UNC) 288: Facilitating the Reduction of Enduring Annual NTS Exit (Flat) Capacity by a value less than 100,000 kWh (UNC 288)		
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:	25 June 2010	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

On 19 January 2009 Ofgem approved UNC195AV which introduced the reform of booking arrangements for exit capacity ("exit reform") for the National Transmission System (NTS). As part of these arrangements an Enduring Annual NTS Exit (Flat) capacity product was made available. This product allows a system User to apply for and hold an ongoing right to flow firm NTS Exit (Flat) capacity at an exit point for each day in that gas year and each following gas year until such time as the User reduces its enduring capacity rights.

To minimise the impact of exit reform an initial amount of Enduring Annual NTS Exit (Flat) capacity was granted to system Users at individual exit points. This initial amount was based on the maximum firm and interruptible NTS exit capacity held by the User in gas year 2006/07 for each exit point where it held capacity. This resulted in some Users being granted an initial Enduring Annual NTS Exit (Flat) capacity amount of less than 100,000 kWh.

Exit reform also allows Users the ability to reduce their Enduring Annual NTS Exit (Flat) capacity holdings at annual reduction windows or through ad hoc reduction invitations issued by National Grid Gas (NGG). The annual reduction windows are open from 1 to 15 July each year and allow Users to apply to reduce their enduring rights from the following year onwards.

UNC TPD Section B3.1.4 determines the minimum eligible amount of capacity by which Users can request to reduce their exit capacity holdings. This minimum eligible amount is set at 100,000 kWh. This means that those Users who hold Enduring Annual NTS Exit (Flat) capacity of less than 100,000 kWh cannot request that NGG reduce their holdings and, therefore, may possibly pay NGG each year for capacity they no longer require.

The modification proposal

NGG proposed UNC 288 to remove the minimum eligible amount for Enduring Annual NTS Exit (Flat) capacity reduction requests made at the annual reduction window or in response to an ad hoc capacity reduction invitation. The removal of the minimum eligible amount will mean that Users can request to reduce their Enduring Annual NTS Exit (Flat) capacity holdings by any amount.

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.

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

The proposer states that this will allow all Users who hold less or more than 100,000 kWh of Enduring Annual NTS Exit (Flat) capacity at an exit point to request capacity reductions of less than 100,000 kWh.

NGG also proposed that UNC 288 is classified as a user pays modification as it will require changes to be made to the services provided by xoserve. Alongside UNC 288, NGG submitted an Agency Charging Statement (ACS), updated to take account of the need to recover the costs of implementing UNC 288. However, xoserve indicated that the changes can be implemented at zero cost since they can be given effect as part of xoserve's planned system transformation work during June 2010.

In the proposer's view, a number of Users would benefit from UNC 288 and NGG provided a breakdown of how implementation costs could be recovered (notwithstanding xoserve's view that the required system changes could be done at zero cost). Implementation costs would be recovered on a 50/50 basis from Shipper Users and the Transporter. Shipper User costs would consist of a one-off implementation cost split between all Shipper Users based on the proportion of NTS Exit (Flat) capacity they hold on 1 October 2012 as registered with NGG on the implementation date for UNC 288.

UNC Panel³ recommendation

The modification panel met on 20 May 2010. Of the nine voting members present capable of casting ten votes, ten votes were cast in favour of implementing UNC 288. Therefore, the Panel recommended implementation of the modification.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 7 June 2010. 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 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 better facilitates achievement of the UNC relevant objectives as set out below.

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at: <http://www.gasgovernance.co.uk/>

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.

Relevant Objective (a): the efficient and economic operation of the pipeline system

Several respondents to the consultation stated that the modification would allow Users to provide better signals about their exact capacity requirements which will lead to a more efficient and economic use of the NTS. We agree with these respondents.

At present, Users who hold less than 100,000 kWh of Enduring Annual NTS Exit (Flat) capacity cannot offer to reduce their capacity holdings at the annual capacity reductions windows or via the ad hoc reduction mechanism. This may mean that there are Users who hold capacity they no longer require which cannot be offered to the market.

The modification would ensure that such Users can offer to reduce their exit capacity holdings allowing Users to send better capacity demand signals to NGG and help ensure that efficient and economic decisions regarding NTS investment are made.

Similarly, Users who hold more than 100,000 kWh of Enduring Annual NTS Exit (Flat) capacity will also be able to more precisely signal their exit capacity requirements. This would also ensure that more capacity is available to all Users and reduce the need for NGG to invest in the NTS unnecessarily.

Relevant Objective (d): so far as consistent with (a) to (c) secure effective competition between Shippers, Suppliers, and/or DNOs

Six respondents to the consultation considered that giving Users greater precision over the amount of Enduring Annual NTS Exit (Flat) capacity they hold could help facilitate competition. However, one respondent questioned how great the effect on competition would be.

Respondents who considered that UNC 288 will facilitate competition noted the removal of the minimum eligible amount would allow Users to reduce their holdings to more accurately match their requirements, making available those amounts of unrequired Enduring Annual NTS Exit (Flat) capacity to other Users. We agree that, to the extent efficient operators are able to reduce costs by aligning their capacity holdings with actual requirements they will gain a competitive advantage. We also consider that the implementation of this modification will remove an artificial constraint on the availability of Enduring Annual NTS Exit (Flat) capacity, which may distort its true value. For these reasons, we consider that the implementation of this modification will further the achievement of this relevant objective.

User pays charge and implementation

NGG have classified the modification as user pays with costs to be recovered on a 50/50 basis from the Transporter and Shipper Users. However, xoserve indicated that the modification can be implemented at zero cost and incorporated with other planned system changes.

In our view, UNC 288 meets the relevant objectives for the reasons given above and ought to be implemented at a zero cost to System Users and the Transporter as xoserve has indicated. As there is no requirement for implementation costs associated with the modification, it is unnecessary to revise the ACS to include a charge to recover non-existent costs. We are therefore vetoing the ACS modification. However, in the event that unforeseen costs do arise, which can be demonstrated to relate specifically to the implementation of this modification rather than any systems work undertaken in parallel,

we would be happy to consider a re-submitted ACS which shares these costs between Users and NGG.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 288: 'Facilitating the Reduction of Enduring Annual NTS Exit (Flat) Capacity by a value less than 100,000 kWh' be made.

Stuart Cook
Senior Partner, Transmission and Governance

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