

Modification proposal:	UNC 347V: Amend NTS Exit Capacity Assignment Start Date		
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:	17 February 2011	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

On 19 January 2009 Ofgem approved UNC 195AV which introduced reform of the booking arrangements for exit capacity from the National Transmission System (NTS)³. As part of the new exit arrangements National Grid Gas (NGG) will facilitate the assignment of Enduring Annual NTS Exit (Flat) Capacity and Annual NTS Exit (Flat) capacity between users.

Users that are registered as holding enduring or annual exit capacity can apply to have that capacity registration transferred to other users through the assignment process. This process allows an assignor user⁴ to assign all of their enduring or annual capacity to the assignee user⁵. If NGG approves the proposed assignment, then the assignor user will cease to be liable for capacity charges in respect of the assigned capacity; the assignee will take on those charges.

The start date for allowing the assignment of Enduring Annual and Annual Exit (Flat) capacity is 1 August 2011.

Users can also reduce their exit capacity holdings during the annual reduction windows which are open during July each year. NGG makes the final decision on whether or not an application by a user to reduce its capacity holdings will be accepted.

The modification proposal

UNC modification 347V ("UNC 347V") seeks to bring forward the start date for allowing full assignment of Enduring Annual NTS Exit (Flat) and Annual Exit (Flat) capacity from 1 August 2011 to 1 June 2011. Note that UNC 347V does not apply to the assignment of partial quantities of Enduring Annual Exit (Flat) capacity⁶.

This change would ensure that users have the ability to assign their holdings of Enduring Annual and Annual Exit (Flat) capacity to other users before the exit capacity reduction window opens in July. The proposer hopes to avoid the currently plausible scenario

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 See the decision on UNC195AV published on 19 January 2009 on the Joint Office website www.gasgovernance.co.uk.

⁴ The assignor user is the user with which the exit (flat) capacity is originally registered. The assignor user assigns their exit (flat) capacity rights to another user such that the exit (flat) capacity is then registered with the other user.

⁵ The assignee user is the user which the exit (flat) capacity is proposed to be registered with following the assignment process.

⁶ The ability for users to assign partial amounts of Enduring Annual and Annual Exit capacity was approved by the Authority in UNC276. However, the associated charge recovery proposals were rejected and no alternative has been agreed. NGG consider the implementation of partial assignment will not take place before August 2011. This is outside the timescale of UNC 347V.

whereby capacity which could be assigned to other system users is instead offered to NGG at a reduction window. Such an occurrence could lead to the submission of unnecessary requests for incremental exit capacity by system users.

The proposer also considers that UNC 347V can be implemented at a zero cost because the system changes required to implement UNC 347V can be included in wider system changes (known as "exit phase two") to implement exit reform. The proposer, and NGG, expects that these system changes can be concluded before 1 June 2011.

If the system changes are not complete by 1 June 2011 the proposer expects NGG to manually record any assignments made with a view to updating the GEMINI system retrospectively once the assignment functionality is available. Since then, NGG has stated that the ability to deliver capacity assignments is solely dependent on the implementation date of the exit phase two changes and a manual workaround would not be possible.

While confident UNC 347V can be implemented with a zero cost the Proposer has classified the modification as User Pays. Implementation charges (if any) should be recovered by a one-off payment from all Shipper users based on the proportion of Enduring Annual or Annual NTS Exit (flat) capacity they are registered as holding on the implementation date of the modification.

UNC Panel⁷ recommendation

The UNC modification panel considered UNC 347V on 16 December 2010 and voted unanimously that the modification be implemented.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the FMR dated 14 January 2011. 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 FMR⁸. The Authority is satisfied that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁹; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹⁰.

Reasons for the Authority's decision

We are of the view that moving the exit capacity assignment start date to 1 June 2011 will better facilitate the achievement of the relevant objectives below.

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁹ 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

¹⁰ 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.

SSC A11.1 (a): the efficient and economic operation of the pipeline system

Several respondents to UNC 347V consultation considered that the modification would enhance the achievement of this objective by allowing Shippers to make better informed decisions regarding their exit capacity holdings.

We agree that UNC 347V will increase the efficiency and economic operation of the pipeline system. UNC 347V will allow users to vary their holdings of Enduring Annual and Annual exit capacity between themselves before having recourse to NGG. This should allow for a more efficient use of existing exit capacity and avoid sending spurious investment signals to NGG.

SSC A11.1 (d): securing effective competition

One consultation respondent considered UNC 347V would enhance this objective by introducing greater flexibility as to how users manage their holdings of Enduring Annual and Annual NTS Exit (Flat) capacity.

Another respondent considered that implementation would ensure users wishing to use the assignment process will not need to enter into deeds of assignment or contracts with each other to guarantee assignment prior to the exit capacity reduction window in July.

We agree that UNC 347V may have a marginal beneficial effect on securing effective competition. UNC 347V may make exit capacity available to users with less need to apply for additional capacity at the annual application window. This should give users more certainty in their ability to manage their exit capacity requirements. For example, a Shipper user will firstly be able to consider assigning excess capacity to another Shipper rather than requesting a reduction of their capacity holdings in the July window.

The User Pays classification

We note that both the modification proposer and NGG are confident the system changes to allow capacity assignment can be implemented before 1 June 2011, meaning that UNC 347V can be implemented at a zero cost. However, there is a possibility that these system changes could be delayed beyond 1 June 2011. In this instance, the proposer considered that NGG should manually record any capacity assignments that take place in the interim period, with system changes being made retrospectively in Gemini once the required system functionality is available. NGG, however, have confirmed that both xoserve and themselves consider this alternative solution is not possible and capacity assignment can only be implemented alongside the exit phase two system changes.

We consider that UNC 347V meets the relevant objectives for the reasons listed above and should be implemented at zero cost to system users. To this extent we expect NGG to implement the exit phase two Gemini system changes before 1 June 2011. Both the modification proposer and NGG have stated that this early implementation date is achievable and is currently on track for delivery during April 2011; we expect this deadline to be met.

Once these system changes are finalised, the proposer, NGG and the Joint Office of Gas Transporters should agree an implementation date in advance of 1 June 2011. This will allow the relevant UNC changes to be made and capacity assignment to take place from 1 June 2011.

We also want to make a general point about the implementation of user pays proposals. We note that a significant amount of time in UNC modification workgroups is being taken up by discussions around the cost recovery element of proposed modifications, including for modifications which can nominally be implemented at a zero cost. We are concerned that this focus on the payment aspect of proposed modifications is hindering the development of robust and well argued content for inclusion in draft and final modification reports.

How system costs related to modifications are recovered is, clearly, an important consideration for NGG and system users. However, we do not want to see attendees at workgroups continuing to focus discussions unnecessarily on cost implications. If system users do not agree with cost recovery proposals they can raise alternative modifications or make their views known in consultation responses. We consider these options have not been adequately realised by system users.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC347V: Amend NTS Exit Capacity Assignment Start Date.

Hannah Nixon
Partner, Transmission

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