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Dear Colleague

Uniform Network Code modification proposal 0038 "Provision of information to support development of the NTS investment programme"

Ofgem¹ has considered the issues raised in the modification report in respect of modification proposal 0038 "Provision of information to support development of the NTS investment programme" and, having regard to the principal objective and statutory duties of the Authority², has decided to direct the relevant gas transporters to implement modification proposal 0038.

The reasons for this decision are set out below.

Background to the proposal

Authority decision on enduring offtake arrangements

At its meeting of 23 June, the Authority reviewed its previous decision to require the implementation of the National Transmission System (NTS) enduring offtake arrangements on or before 1 September 2005. In reviewing its previous decision, the Authority concluded that the enduring offtake arrangements remain an important aspect of the regulatory, commercial and operational framework necessary to protect customers' interests in a divested industry structure. However, the Authority decided that further time should be allowed for consultation on the development of the enduring offtake arrangements with a view to their implementation from September 2007 in the form of allocations of offtake rights from October 2010 onwards.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

² Set out in Section 4AA of the Gas Act 1986, as amended.

The reasons for the Authority decision are outlined in detail in an open letter published on 24 June 2005.³ In summary, the Authority concluded that a revision of the timetable would be consistent with the principles of better regulation and would also provide additional time for it to consider a number of important interactions between the NTS offtake arrangements and the NTS entry capacity regime as part of the forthcoming price control review.

The Modification Proposal

Against the background set out above, Transco NTS submitted non-urgent modification proposal 0038 on 14 July 2005.

In summary, this modification proposal requires that:

- Distribution Network Operator (DNO) users provide to Transco NTS on an annual basis detailed flow forecasts for each of its NTS/Local Distribution Zone (LDZ) offtakes for each Gas Year commencing at the start of the following Gas Year Y up to and including Gas Year Y+5. Such information would contain the DNO User's indication of its capacity requirements in the form of the volume flow rate, peak rate and the offtake flexibility quantity at the following demand levels:
 - 1-in-20 peak day demand
 - Day 13 of the severe load duration curve
 - Day 46 of the average load duration curve
 - Day 150 of the average load duration curve
 - Day 300 of the average load duration curve
- Transco NTS provides to DNO users (in response to the DNO user's detailed flow forecasts) its forecast of the availability of NTS offtake (flat) capacity, NTS offtake (flexibility) capacity and assured offtake pressure in respect of each of its NTS/LDZ offtakes for each gas year commencing at the start of the following gas year Y up to and including gas year Y+5 where the DNO user has not already been allocated capacity entitlements at the NTS/LDZ offtake for any such year.

The proposal states that the offtake flow forecasts would be provided in statements similar to the historical PS3 statements, which were adopted within the integrated Transco organisation prior to the implementation of the Uniform Network Code.

Under this proposal, the detailed flow forecast statements would be provided by each DNO User to Transco NTS by 31 July in each Gas Year. On a transitional basis for 2005 only, the cut-off date for formal provision of the statement would be 15 September 2005 (or the day immediately following the implementation date in the event that the implementation date is beyond 14 September 2005). Furthermore, in light of the compressed timescales this year, it is proposed that the information to be provided to Transco NTS should be in respect of the 1 in 20 peak day demand level only.

³ 151/05, Ofgem open letter on enduring offtake arrangements, June 2005.

Transco NTS would then provide DNO Users with the forecast NTS offtake capacity and pressure information by 30 September each year. On a transitional basis for 2005 only, it is proposed that this information is provided by 15 October 2005 (or the 1 month following the implementation date in the event that the implementation date is beyond 14 September 2005).

The proposer considered that similar flow forecast information in respect to all NTS direct connects is beneficial to support the formulation of the 5-year NTS investment programme. The proposer noted that under the UNC, shipper users are required to provide this information for Gas Years Y, Y+1 and Y+2 only. The proposer, to improve consistency with the proposed detailed flow forecast statements for NTS/LDZ offtakes, but in recognition of the fact that direct connects are only supplied through single offtakes, proposed that peak flow information in respect of Gas Years Y+3 and Y+4 is provided by Shipper Users to Transco NTS on a voluntary basis.

Respondents' views⁴

Seven responses were received in relation to modification proposal 0038. All respondents were in favour of the implementation of the proposal.

The proposer stated that the initial version of the proposal was amended to include the provision of information regarding the availability of NTS offtake capacity and assured offtake pressures by Transco NTS to DNO users. The proposer reiterated that it considered that including the exchange of information within the proposal would replicate internal processes which existed prior to implementation of the UNC, as far as appropriate under the new commercial regime. However, the proposer considered that it would not be relevant to include similar obligations on Transco NTS to provide information regarding the availability of exit capacity to shipper users at NTS supply points and Connected System Exit Points (CSEPs), on the basis that:

- shipper users do not need to be able to demonstrate compliance with safety case and licence obligations regarding system investment; and
- if shipper users wished to obtain such information, it could request it as part of a budget enquiry for a potential new connection or load growth at an existing offtake, as part of an existing connection process

One respondent supporting this modification proposal approved of the requirement by which, for 2005, DNs are only required to supply 1-in-20 peak day demand information, although where possible the respondent would expect DNs to provide all available information (as required from 2006 onwards). The respondent considered that the provision of anticipated NTS offtake requirements up to five years ahead supports the development of appropriate investment plans, which might promote more efficient operation of the pipeline system in subsequent years.

Another respondent noted that the proposal is a sensible solution to enable Transco NTS to operate the pipeline system in an efficient and economic manner. The respondent also supported the principle that NTS direct connects communicate directly with Transco on any forward forecasts.

⁴ This section is intended to summarise the principal themes of the respondents' views and is not intended to provide a comprehensive overview of the responses received. These can be found on the Gas Transporters information service (formally known as Nemisis) <https://gtis.gasgovernance.com>

A respondent considered that this proposal provides a pragmatic way of ensuring that Transco NTS has timely information on an individual NTS/LDZ offtake basis to provide input into its investment plans and hence enable it to demonstrate compliance with its safety case. The respondent added that the provision of forecast capacity and assured pressure information to the DNO users will also provide valuable information to support their investment plans. Whilst recognising that the provision of indicative flow information by shippers at direct connects could be beneficial to Transco NTS in developing its investment plan and provides a degree of consistency in approach between direct connects and LDZ offtakes, the respondent was pleased that Transco NTS had recognised that offtakes serving direct connects and LDZs have different characteristics such that exactly the same information is not required.

Another respondent considered that the information exchange between Transco NTS and DNO users would facilitate the relevant objectives of the efficient and economic operation of individual transporters' pipeline systems and the entire GB system, and added that the proposed additional indicative flow information to be provided by shippers at NTS direct connects could also be beneficial to Transco NTS in terms of the development of investment plans.

Concerns with the proposal

Some respondents, whilst offering support to the proposal, expressed some concerns regarding the timetable for information provision from 2006 onwards. In particular, some respondents were concerned that DNs would not have sufficient time to process the most recent calorific value (CV) data in order to determine capacity and pressure requests and submit their applications. One respondent reserved the right to re-examine the appropriateness of the 2006 timetable and beyond, if over the next months there is evidence that the most recent CV data is a more relevant set of data to utilise. Another respondent stated that they planned to work with Transco NTS and other transporters to clarify and resolve these concerns in time for the next year, and added that if as a result of these discussions they believe changes to the UNC are required, they considered there is sufficient time to raise a proposal to resolve this particular aspect. One respondent recognised that this issue will be discussed as part of the wider discussion on the planning process scheduled to take place at the offtake arrangements workstream.

One respondent expressed doubts on whether it is still appropriate for data to be supplied for day 13 of the severe load duration curve, given the changing supply/demand patterns and use of Liquefied Natural Gas (LNG) in the UK.

Panel recommendation

At the modification panel meeting of 1 September 2005 of the nine voting members present, capable of casting ten votes, ten votes were cast in favour of the implementation of this modification proposal. The Panel therefore unanimously recommended the implementation of Modification Proposal 0038.

Ofgem's view

Ofgem has carefully considered the views of all the respondents, including Transco NTS, on modification proposal 0038. Having had regard to the principal objective and the statutory duties

of the Authority, Ofgem considers that this modification proposal better facilitates the relevant objectives (a) and (b) as set out in paragraph 1 of Standard Special Condition A11 (Network Code and Uniform Network Code) in the Gas Transporters Licence.

Standard Special Condition A 11(1) (a) – the efficient and economic operation of the pipe-line system to which this licence relates

Ofgem considers that the provision of NTS demand forecast information as set out in this proposal would enable Transco NTS to inform its investment decisions, with a consequence of better facilitating the efficient and economic operation of the NTS pipeline system. However, Ofgem would note that, whilst potentially helpful, planning information is a sub-optimal solution compared to market-based information in a divested industry structure. In particular, without fettering the discretion of the Authority, it is noted that, as regards the future development of the offtake regime, Ofgem considers that the enduring offtake arrangements remain an important aspect of the regulatory, commercial and operational framework necessary to protect customers' interest in a divested industry structure. The enduring offtake arrangements would be expected to provide Transco NTS with financially backed investment signals from users of the NTS, which could be used as a basis to inform Transco NTS's investment decisions.

Standard Special Condition A 11 (1) (b) so far as is consistent with sub-paragraph(a), the co-ordinated, efficient and economic operation of (i) the combined pipeline system and/or (ii) the pipe line system of one or more other relevant gas transporters

Similarly, Ofgem considers that the provision of forecast information to all transporters would inform their investment decisions, and therefore would better facilitate the co-ordinated, efficient and economic operation of their pipeline systems and of the combined pipeline system. However, Ofgem would reiterate its comment that, in a divested industry structure, market-based information is preferable to planning information, as it would be expected to provide more efficient investment signals to the NTS.

Ofgem's decision

For the reasons outlined above, Ofgem has decided to accept modification proposal 0038.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely



Robert Hull

Director, Transmission

