

Modification proposal:	<b>Uniform Network Code (UNC) 0129: Delay to the 2007 AMSEC Auction (UNC 0129)</b>		
Decision:	<b>The Authority<sup>1</sup> directs that this proposal be made<sup>2</sup></b>		
Target audience:	<b>The Joint Office, Parties to the UNC and other interested parties</b>		
Date of publication:	<b>17 January 2007</b>	Implementation Date:	<b>To be confirmed by the Joint Office</b>

## Background to the modification proposal

UNC modification proposal 0129 is intended to remedy the potential problem of increased buyback costs that under the *status quo* could result from a misalignment between the entry capacity release obligations on National Grid Gas plc (NGG) in relation to the Annual Monthly System Entry Capacity (AMSEC) auctions scheduled for February 2007 and the entry capacity release obligations that NGG will have with effect from 1 April 2007 arising from the transmission price control review (TPCR) which NGG accepted in December 2006.

## The modification proposal

This modification proposal changes the dates on which the AMSEC auction in respect of entry capacity from April 2007 to March 2009 is held, such that the invitation for that auction is issued not later than two business days after direction by the Authority under section 23 of the Gas Act 1986 implementing modification to NGG's gas transporter licence associated with the TPCR. Such auction to be held no earlier than the later of 1 April 2007 and 28 days after the issuing of said invitation.

## UNC Panel<sup>3</sup> recommendation

At its meeting of 16 January 2007 the UNC Panel recommended that the modification proposal not be implemented.

## The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 16 January 2007. 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 FMR<sup>4</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>5</sup>; and

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

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

<sup>3</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>4</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>5</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see:

2. directing that the modification proposal be made is consistent with the Authority's principal objective and statutory duties<sup>6</sup>.

### **Reasons for the Authority's decision**

At the UNC Panel meeting held on 16 January 2007, of the 7 Voting Members present capable of casting 9 votes, 4 votes were cast in favour of implementing this modification proposal. We agree with the four who considered that the implementation of the modification proposal on the basis that it will better facilitate achievement of relevant objectives (a) and (c) of standard special condition A11, the efficient and economic operation of the pipe-line system and the efficient discharge of the NGG obligations under its licence. We do not consider this proposal to have a material or detrimental impact upon the other relevant objectives.

Ofgem considers that holding back the AMSEC auction as proposed would have the effect of aligning the sales of entry capacity with the levels of NGG's entry capacity release obligation following the implementation of the TPCR. If this were not implemented NGG would be likely to face additional buyback costs, a significant proportion of which would be passed through to shippers (and hence suppliers and then customers). Ofgem does not consider that this outcome would be an efficient and economic operation of the pipe-line system.

In addition, Ofgem considers that this proposal could have a moderately beneficial impact on the securing of effective competition between gas shippers as it will avoid building in potential buyback costs which would be recovered through a general charge on shippers. As shippers would be exposed to these costs and largely unable (on an individual basis) to control them, this would make competition less effective in protecting the interests of consumers.

Ofgem notes that some respondents considered that this modification proposal would not facilitate the achievement of the relevant objectives citing examples of situations in which current flows have exceeded the baselines. Although there have been such situations, Ofgem does not consider that this means that the baselines proposed in TPCR (and hence those which this modification would cause to be released in the (delayed) AMSEC auction) are incorrect. Ofgem notes that the ability of NGG to sell non-obligated capacity and interruptible capacity has been designed because there may be circumstances in which capacity available at an entry point can exceed a given baseline. Ofgem therefore considers that the evidence on flows does not demonstrate that this modification proposal would be inefficient. Ofgem does observe however that there could be a degree of uncertainty about shippers' ability to get interruptible and non-obligated capacity in the current industry arrangements and draws attention to the proposals as part of the TPCR to review NGG's gas transmission planning methodology with a view of providing greater transparency and clarity for system users.

Some respondents observed that changing baselines has an impact on the risks shippers face. However, Ofgem notes that this risk (to the extent it exists) would essentially result from the TPCR process (which has always been intended to involve the adjustment of baselines) and is neither a new risk nor a risk generated from this modification proposal. Similarly the view of a respondent that this modification proposal may lead to a decline in demand for gas storage services due to increased uncertainty (to the extent it exists),

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[http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=6547](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)

<sup>6</sup>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.

essentially results from the TPCR process and is neither a new risk nor a risk generated from this modification proposal.

In reaching its view that the proposal better facilitates the achievement of the relevant objectives, without fettering the discretion of the Authority, Ofgem also notes that there may be merits in alternative approaches to delaying the auctions which preserve the ability of participants to purchase, through the annual auction, MSEC rights for the month of April 2007.

Ofgem considers that by avoiding the risk of undue buyback costs, some of which will ultimately be paid by consumers, the implementation of this proposal is consistent with its principal objective.

Ofgem considers that the implementation of this modification proposal would be consistent with the principles of best regulatory practice. Given the timeframe involved and the urgency of this modification proposal, Ofgem has necessarily had to consider the proposal in a shortened timeframe, but Ofgem considers that delaying the auctions is a proportionate way of addressing the issues.

#### **Decision notice**

**In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 0129: Delay to the 2007 AMSEC Auction, be made.**



Robert Hull, Director of Transmission

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