

Modification proposal:	Uniform Network Code (UNC) 151 / 151A: Transfer of Sold Capacity Between ASEPs (UNC151 / 151A)		
Decision:	The Authority ¹ has decided to reject these proposals		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	12 June 2007	Implementation Date:	N/A

Background to the modification proposal

Currently under the Uniform Network Code (UNC) arrangements a user is able to transfer all or part of its NTS entry capacity rights to another user at the same Aggregate System Entry Point (ASEP) for any Gas Day or consecutive Gas Days by both parties notifying National Grid Gas NTS (NGG NTS).

As part of the 2007-2012 price control Ofgem has proposed that NGG NTS be obliged to use reasonable endeavours to meet requests from a user for determination of a 'trade' rate or rates to facilitate the transfer of sold firm NTS entry capacity between ASEPs.

On 8 May 2007 the Authority rejected proposal UNC138 (Transitional Arrangements for Entry Capacity Transfers to Sold Out ASEPs²) to introduce a mechanism whereby a shipper, holding NTS entry capacity rights at multiple entry points, could reallocate that capacity between different entry points in its portfolio. This decision was on the grounds that UNC138 did not further the objectives of efficient and economic operation of the NTS, efficient discharge of NGG NTS's licence conditions and securing effective competition.

The modification proposals

UNC151: Transfer of Sold Capacity Between ASEPs

UNC151 is intended to complement UNC150 (Introduction of the AMTSEC Auction). NGG NTS proposes that a one-day transfer window will be used to transfer sold firm NTS entry capacity to a Recipient ASEP (where all capacity made available in the Annual Monthly System Entry Capacity (AMSEC) auction has been sold out) for the period October 2007 to March 2008.

Under UNC151, NGG NTS will identify the Available Months for the transfer process i.e. months where the capacity available at one or more Recipient ASEPs has been sold out, and invite users to request a Transfer Rate of NTS entry capacity. In the transfer window users request a Transfer Rate by stating the Transferor ASEP, where they want to transfer capacity from, and the Transferee ASEP, where they want to transfer capacity to, along with the Transfer Period and the Transfer Amount that they want to transfer from the Transferor ASEP. Communication is made by fax and NGG NTS determines the Transfer Rate on a first-come-first-served basis in accordance with the Entry Capacity Trade and Transfer Methodology Statement, which is being consulted on. The user must then confirm acceptance of the Transfer Rate before NGG NTS begins assessment of the

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 <http://www.gasgovernance.com/NR/rdonlyres/7C6E3EAD-08B0-4FFD-856B-6C1166D11054/16968/OfgemDecisionLetter.pdf>

next potential transfer. The Transfer Amount is deducted from the user's holdings at the Transferor ASEP and an amount added to the Transferee ASEP following application of the Transfer Rate. The Transferor user will not be liable for monthly NTS entry capacity charges for the Adjusted Transfer Amount at the Transferee ASEP.

If after all outstanding Transfer Requests NGG identifies additional scope to increase the level of firm NTS entry capacity at a recipient ASEP it will open a new transfer window.

The proposer considers that proposal UNC151 better facilitates the relevant objectives³ of:

- the efficient and economic operation of the pipe-line system to which this licence relates – as UNC151 could result in the avoidance of the stranding of gas offshore.
- so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence – as UNC151 is anticipated to meet the new licence obligation on NGG NTS to facilitate the transfer of sold capacity between ASEPs.

UNC151A: Transfer of Sold Capacity Between ASEPs

E.ON proposes, instead of UNC151, that there are (i) Intra-Zone Sold Capacity Trade Requests, and (ii) Inter-Zone Sold Capacity Trade Requests.

Intra-Zone Sold Capacity Trade Requests

UNC151A proposes the use of a one-day transfer window after the 2007 Annual Monthly System Entry Capacity (AMSEC) auction but before any Unsold Entry Capacity Transfer begins (as outlined in UNC150A⁴) and then on an 'on-request' basis after 1 October 2007.

Transfers within a zone are made on a 1:1 basis and NGG NTS after implementation of this proposal would publish Nodal Maximum of all ASEPs.

NGG NTS will invite users to participate in the Intra-Zone Sold Capacity Trade Request process after the 2007 AMSEC auction. In its request a user states again the Transferor ASEP, the Transferee ASEP, the Transfer Amount it wants to transfer from the Transferor ASEP and the Transfer Period in which the Transfer Amount is to be applied.

In the 'one-off' transfer window if there are two or more users within a zone requesting to transfer capacity to the same Transferee ASEP then they are treated in aggregate. If the aggregate amount exceeds the nodal maximum of the ASEP then the amounts are allocated pro-rata. After 1 October 2007 Trade Requests are dealt with on a first-come-first-served basis.

The transfer amount is deducted from the user's holdings at the Transferor ASEP and an equal amount added to the Transferee ASEP. The user will not be liable for monthly NTS entry capacity charges for the Adjusted Transfer Amount at the Transferee ASEP.

In the 'one-off' transfer window communication is to be done by fax whilst after 1 October 2007 Trade Requests will be done on the Gemini system.

³ See http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

⁴ <http://www.gasgovernance.com/NR/rdonlyres/96A852CD-B5E4-4A71-B707-BB37A241735D/17573/01500150AModificationReportV30.pdf>

Inter-Zone Sold Capacity Trade Requests

Users can on any business day from 1 October 2007 request a transfer of capacity by notifying NGG NTS of the Transferor ASEP, the Transferee ASEP, the Transfer Amount it wants to transfer from the Transferor ASEP and the months in which the Transfer Amount is to be applied.

NGG NTS shall determine the Transfer Rate on a first-come-first-served basis based on the peak flow winter model and assuming Transferor/Transferee ASEP is running at baseline.

The transfer amount is deducted from the user's holdings at the Transferor ASEP and an amount added to the Transferee ASEP following multiplication of the Transfer Rate. The Transferor user will not be liable for monthly NTS entry capacity charges for the Adjusted Transfer Amount at the Transferee ASEP.

The proposer considers that proposal UNC151A better facilitates the relevant objectives of:

- the efficient and economic operation of the pipe-line system to which this licence relates – as a 1:1 Transfer Rate is transparent, prevents queues forming and is less costly to calculate.
- so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence – as facilitates trades of sold capacity more frequently
- so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition (i) between relevant shippers – as the 1:1 exchange rate is simple and transparent, facilitates transfers of a frequent basis, better reflects risk-reward proposals, avoids restrictions as to when a user can request a Transfer Rate and can be implemented well ahead of winter 2007/8
- so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers – as allows users the opportunity to secure additional capacity
- 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 – as facilitates transfer of sold capacity more frequently.

UNC Panel⁵ recommendation

At the Modification Panel meeting held on 7 June 2007, of the seven voting members present, who were capable of casting nine votes, one vote was in favour of implementing UNC151 and one vote was in favour of implementing UNC151A. The panel did not recommend implementation of either UNC151 or UNC151A.

Of the seven voting members present, who were capable of casting nine votes, one vote was in favour of implementing UNC151 in preference to UNC151A. One vote was in favour of implementing UNC151A in preference to UNC151.

⁵ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 7 June 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 FMR⁶.

The Authority has concluded that implementation of the modification proposals will not better facilitate the achievement of the relevant objectives of the UNC⁷.

Reasons for the Authority's decision

The efficient and economic operation of the pipe-line system to which this licence relates

One of the respondents noted that it was hugely inefficient to allocate bids on a first-come-first served basis by the use of fax as proposed under UNC151.

Ofgem shares this concern as the creation of a queue of requests for a Transfer Rate, which could result, would require NGG NTS to determine the Transfer Rate for each in turn. This may limit the number of Transfer Rates determined in the winter 2007/8 period and thereby the economic and efficient operation of the NTS would be frustrated. Furthermore, the first-come-first-served criteria may result in less efficient transfers resulting if they are first in the queue.

Respondents that did not support the use of a 1:1 Transfer Rate for NTS entry capacity transferred within a zone, under UNC151A, were concerned with the arbitrary nature of this Transfer Rate which could result in perverse auction behaviour and expose users to buy-back.

Ofgem is aware that the use of a 1:1 Transfer Rate for all within zone trades has advantages and disadvantages. In the short term, the use of a zonal system and a pre-specified transfer rate brings advantages of simplicity and transparency to the process, which would significantly reduce the administrative burden and implementation complexity. Further, the use of a 1:1 Transfer Rate has the advantage of maintaining system capacity, which is an issue of concern for shippers. However, the disadvantage is that this rate might not fully account for the specific factors affecting each individual trade of capacity between entry points. This could distort the longer-term signal given to shippers in auctions which may result in an inefficient allocation of NTS entry capacity.

So far is consistent with sub-paragraphs (a) to (c), the securing of effective competition (i) between relevant shippers

As noted above, respondents thought it was hugely inefficient to allocate bids on a first-come-first served basis by the use of fax as proposed under UNC151. Ofgem has already outlined its concerns with this above, however in addition to this, the determination of Transfer Rates and therefore the conclusion of trades taking place on a first-come-first-served process could result in less efficient trades being concluded first. This would

⁶ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁷ 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

favour those trades which were 'first' in the queue over those which may be more efficient which could reduce the potential for competition between shippers. Ofgem also notes that both proposals could result in the formation of lengthy queues for requested trades. It would be a requirement for any potential mechanism to demonstrate its capability to deal with such queues in an efficient manner.

A number of respondents to the consultation raise concerns over the sequencing of having the Intra-Zone Sold Capacity Trade (as outlined in UNC151A) followed by the additional final round to the AMSEC 2007 auction (outlined in UNC150A). One respondent thought that this sequence favours larger users with a larger holding of NTS entry capacity rights.

Ofgem shares this concern that the sequencing inherent in UNC151A whereby the trade of sold capacity is favoured over the transfer of unsold capacity positively discriminates in favour of those users with greater amounts of existing NTS entry capacity rights. This would frustrate competition between those shippers which have acquired large amounts of NTS entry capacity rights and other shippers which have small amounts of NTS entry capacity rights. Therefore Ofgem considers that UNC151A would not better facilitate the securing of effective competition between shippers.

In summary, Ofgem agrees with the UNC Panel in considering that neither UNC 151 nor UNC 151A better facilitate the achievement of the relevant objectives. In accordance with Standard Special condition A11 of the Gas Transporters Licence, the Authority hereby directs that the modification proposals 151 / 151A: Transfer of Sold Capacity Between ASEPs should not be made.



Robert Hull
Director of Transmission
Signed on behalf of the Authority and authorised for that purpose.