

Modification proposal:	Uniform Network Code (UNC) 150 / 150A: Introduction of the AMTSEC Auction / Introduction of Unsold Entry Capacity Transfers (UNC150 / 150A)		
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

In the 2002-2007 price control National Grid Gas NTS (NGG NTS) had an obligation to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP). This provided certainty of the amounts of capacity available but did not allow for unsold capacity to be reallocated to where users value it most.

As part of the 2007-2012 price control Ofgem has proposed that NGG NTS be obliged to facilitate the transfer of unsold capacity to meet demands for capacity elsewhere. This is in order to guard against the risk that capacity is 'sterilised' at an ASEP where it is not needed.

The modification proposals

UNC150: Introduction of the AMTSEC Auction

NGG NTS proposes the introduction of an Annual Monthly Transfer System Entry Capacity (AMTSEC) auction to transfer unsold capacity between ASEPs for the period October 2007 to March 2008.

Following the 2007 Annual Monthly System Entry Capacity (AMSEC) auctions NGG NTS, under UNC150, will classify and publish ASEPs for each month where one or more ASEPs is sold out, accordingly:

- Recipient ASEP – all capacity made available in the AMSEC auction has been sold out.
- Donor ASEP – not all capacity made available in the AMSEC auction has been sold out.

NGG NTS will then invite users to register to participate in the AMTSEC auction. Users must then commit to paying an application fee for successful bids if they wish to participate in the AMTSEC auction. For those registered users NGG NTS then publishes an invite to the AMTSEC auction containing:

- the nodal maximum for each Recipient ASEP
- an indicative exchange rate matrix for each Recipient ASEP and each month when capacity is available stating the potential Donor ASEPs, the maximum amount of Monthly NTS Entry Capacity that can be transferred from that Donor, the indicative exchange rate and available months

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.

NGG NTS will determine the Transfer Rates and Nodal Maximum in accordance with the Entry Capacity Transfer and Trade Methodology Statement.

Users submit their bid price for the transfer of capacity to the Recipient ASEP. Users' bids are allocated by ranking in order of bid price, with a bid stack created for each month. Equal bid prices are ranked according to time stamp. Unsold Monthly NTS Entry Capacity is allocated to the highest bid first then to each subsequent bid as follows;

- where the bid amount requested exceeds the unallocated amount of unsold capacity available for transfer, the user will be allocated the remaining unallocated amount
- where the bid amount requested exceeds the unallocated amount of unsold capacity available within the nodal maximum at that Recipient ASEP, the user will be allocated the remaining unallocated amount within the nodal maximum at that Recipient ASEP.

Following a successful transfer of capacity a Donor ASEP will have its amount of unsold capacity available for transfer reduced by an amount determined through application of a Transfer rate. NGG NTS will satisfy a bid at a Recipient ASEP from a Donor ASEP or ASEPs with the best available Transfer Rate. Where two or more potential Donor ASEPs can satisfy a bid at a Recipient ASEP at the same Transfer Rate, capacity is transferred from the Donor ASEP with the largest amount of unsold capacity first. Two such Donor ASEPs with the same amount of unsold capacity will have the amount of unsold capacity reduced proportionally between them.

Users pay capacity charges as for the AMSEC auction. NGG NTS will provide to users their allocation within 15 business days after completion of the auction and will provide certain overview information to all users a further 2 business days later.

The proposer considers that proposal UNC150 better facilitates the relevant objectives² of:

- the efficient and economic operation of the pipe-line system to which this licence relates – as UNC150 provides users the opportunity to procure unsold capacity at other ASEPs where it is most valued;
- so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence – as UNC150 is anticipated to meet the new licence obligation on NGG NTS; and
- so far as is consistent with sub-paragraphs (a) to (c), the securing of effective competition (i) between relevant shippers – through the use of pay-as-bid auctions.

UNC150A: Introduction of Unsold Entry Capacity Transfers

E.ON proposes, instead of UNC150, that an additional final round be introduced to the AMSEC auction in 2007, after the completion of the 2007 Intra-Zone Sold Capacity Trade Request Process (as outlined in UNC151A³) to facilitate transfer of unsold capacity within zones⁴. This does not allow for transfers between zones as E.ON claims this is dealt with in UNC151A: Transfer of Sold Capacity Between ASEPs.

² See http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

³ <http://www.gasgovernance.com/NR/rdonlyres/F1A77F15-27AB-431E-8A4E-381F6C16BD43/17575/01510151AModificationReportv20.pdf>

⁴ Zones are defined in the Final Modification Report <http://www.gasgovernance.com/NR/rdonlyres/96A852CD-B5E4-4A71-B707-BB37A241735D/17573/01500150AModificationReportV30.pdf>

Users bid for unsold capacity at each ASEP. Users' bids are ranked by zone rather than ASEP in bid price order. Where bid amount exceeds the amount of available capacity in respect of an individual ASEP, capacity will be transferred from other ASEPs within the same zone subject to a nodal maximum at each ASEP. Where the bid amount cannot be satisfied in full the amount of capacity allocated is scaled-back (pro-rata where more than one user has the same bid price).

Then after the October Rolling Monthly System Entry Capacity (RMSEC) auction there shall be no further additional rounds in the AMSEC auctions but users shall bid as normal in the AMSEC and RMSEC auctions. However, all capacity bids will be ranked by zone, rather than ASEP, with the highest bid price first. Where the bid amount exceeds the amount of available capacity in respect of an individual ASEP, capacity will be transferred from other ASEPs within the same zone subject to a nodal maximum at each ASEP. Where the bid amount cannot be satisfied in full the amount of capacity allocated is scaled-back (pro-rata where more than one user has the same bid price). Remaining unsold capacity shall be carried over to the next RMSEC or AMSEC auction, depending on which comes first.

The proposals are for a 1:1 Transfer Rate for transfers of unsold capacity within zones, subject to nodal maxima.

The proposer considers that proposal UNC150A better facilitates the relevant objectives of:

- the efficient and economic operation of the pipe-line system to which this licence relates – as UNC150A is simple and less costly to implement;
- so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence – as UNC150A facilitates transfer of unsold capacity on a more frequent basis than UNC150 and reflects Ofgem's risk-reward proposals;
- so far as is consistent with sub-paragraphs (a) to (c), the securing of effective competition (i) between relevant shippers – as a 1:1 transfer rate is simple and transparent and UNC150A can be implemented before 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 UNC150A results in more NTS entry capacity being released for transfer; and
- 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 UNC150A provides a set of enduring arrangements.

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, three votes were in favour of implementing UNC150 and one vote was in favour of implementing UNC150A. The panel did not recommend implementation of either UNC150 or UNC150A.

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

Of the seven voting members present, who were capable of casting nine votes, four votes were in favour of implementing UNC150 in preference to UNC150A. One vote was in favour of implementing UNC150A in preference to UNC150.

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

A number of the respondents to the consultation were concerned about the lack of clarity regarding the calculation of the Transfer Rate under UNC150. Under UNC150 the AMTSEC auction invitation only gives users an indicative exchange rate that would apply to the transfer between Donor and Recipient, independent of any other transfers. During the allocation process NGG NTS would then calculate a Transfer Rate for each bid that results in a transfer of capacity.

Ofgem shares the concerns of these respondents. Firstly, users would be committing themselves to transfers of capacity without knowing the exact Transfer Rate to be used. This could result in inefficient decisions made by users as to their use of the NTS or discourage users from participating in the AMTSEC auction process. The second concern is over the time taken for the allocation process as the proposal indicated that it takes 15 Business days to inform users of their allocations. This could have the effect of limiting the number of subsequent capacity trades that actually take place in winter 2007/8 (as proposed in UNC modification 150) which would not be the most economic and efficient manner of using the NTS.

Respondents that did not support the use of a 1:1 Transfer Rate for NTS entry capacity transferred within a zone, under UNC150A, were concerned with the arbitrary nature of this Transfer Rate which could result in perverse auction behaviour and expose users to unlimited buy-back.

Ofgem is aware that the use of a 1:1 Transfer Rate for all within zone transfers 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 transfer 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.

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

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

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 UNC150A 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 UNC150A would not better facilitate the securing of effective competition between shippers.

In summary, Ofgem agrees with the UNC Panel in considering that neither UNC 150 nor UNC 150A 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 150 / 150A: Introduction of the AMTSEC Auction / Introduction of Unsold Entry Capacity Transfers should not be made.



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