

Modification proposal:	Uniform Network Code (“UNC”) 174: Revised tender timescale for DN interruption arrangements (“UNC174”)		
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:	28 November 2007	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

On 15 March 2007 the Authority directed implementation of UNC Modification proposal 90: ‘Revised DN Interruption arrangements’ (“UNC090”) with effect from 1 April 2008. The reformed DN interruption arrangements will change the way that interruptible capacity rights are allocated. Instead of large customers determining their own interruptible status at one year's notice, via annual tenders with three year lead times, the reformed arrangements will allow GDNs to offer interruptible capacity only in the locations and volumes they require. By allowing customers to reveal the value they place on interruptible capacity the reformed arrangements should, among other things, enable the GDNs to make better tradeoffs between contracting for interruption versus reinforcing their own pipeline network and booking incremental NTS exit capacity.

UNC090 revised the DN interruption arrangements such that:

- GDNs determine interruption requirements three years ahead;
- GDNs then publish those interruption requirements 28 days in advance of the interruption tender opening;
- Users drive a value for interruption by bidding into the GDN tender process;
- GDNs select Users offers based on price and interruption terms offered;
- GDNs inform Users of tender results. All Users will pay full transportation charges from 1 October 2011. Users successful in tendering for interruptible capacity will be paid an option fee for the right to be interrupted and an exercise fee per day in the event that they are interrupted.

The modification proposal

UNC174 seeks to revise the annual timetable for tendering for interruption rights, such that the results of the tender are published at the end rather than middle of July each year. Presently the revised interruption arrangements to be implemented on 1 April 2008 require that the annual tender for interruption rights shall take place in June each year with results being published not later than 28 days after the tender. The proposer considers that extending the period between close of the bid window and notification of the tender results will allow more time for the GDNs to analyse the results of the interruption tender ahead of their July bookings of NTS exit capacity. To confirm that no other milestones are impacted, the full timetables as provided for under the original UNC090 and this proposal are set out below:

UNC090

UNC174

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.

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

Publish interruption requirements	1 May 2008	1 May 2008
Bid window opens	2 June 2008	2 June 2008
Bid window closes	12 June 2008	12 June 2008
Notification of tender results	11 July 2008	end of July 2008
Submit NTS Exit Capacity Request	end of July 2008	end of July 2008

The Final Modification Report ("FMR") further confirms that this proposal is to modify the legal text of UNC090, which has been directed to be implemented 1 April 2008 rather than the text which is currently in effect in the UNC.

UNC Panel³ recommendation

At its meeting held on 18 October 2007, the UNC modification panel recommended that UNC174 be implemented, with 8 of the 9 Voting Members present being in favour.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the FMR version 4.0 dated 18 October 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 FMR⁴ and has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁵; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁶.

Reasons for the Authority's decision

We note that the timetable contained in the proposal differs from that which was initially presented to the August meeting of the UNC Distribution workstream⁷. In order to provide an additional month in which to conduct their analysis on interruption bids the GDNs had originally proposed to bring the timetable forward by one month, such that the bid window would open on 1 May and close on 14 May, with shippers being notified of successful bids on 14 July. Shippers noted that this reduced the time available to them in which to consult with customers who may wish to tender, and to put in place necessary systems and processes to accommodate those offers. Several respondents therefore welcomed the development that has been undertaken on this proposal and the compromise position that has been reached.

All of the eight respondents to the Joint Office's consultation on this proposal supported its implementation. A common theme among respondents was that the revised timescale

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

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁵ 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

⁶ 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.

⁷ See the Distribution Workstream section of the Joint Office website at:

<http://www.gasgovernance.com/Code/Workstreams/DistributionWorkstream/2007Meetings/>

would assist the GDNs in meeting their “1 in 20” licence obligation⁸; though views were mixed on which of the relevant objectives this related to most directly. We do not necessarily discount any of the views put forward, but we note that since the materiality of the proposal is limited to providing the GDNs longer to analyse the results of the interruption tender, the effect of the proposal is likely to be limited to better enabling UNC090 to better facilitate achievement of the relevant objectives.

In our decision letter on UNC090⁹ we considered that the DN interruption reform proposal had to varying degrees clear potential to better facilitate each of the relevant objectives under Standard Special Condition A11.1. In particular we emphasised that in increasing the flexibility of interruption as a capacity management tool for the GDNs, the proposal had the ability to positively affect the efficiency of the GDNs’ investment decisions. We considered that this could bring benefits for the efficient and economic operation of the GDNs’ pipeline system, the economic and efficient operation of the combined pipeline system, and the efficient discharge of the licencees obligations in respect of their “1 in 20” licence obligation and their licence obligations concerning the economic and efficient development of their pipeline systems.

We continue to consider that UNC090 will better facilitate achievement of the GDNs relevant objectives. To the extent that UNC174 provides the GDNs more time to undertake analysis and make critical decisions on the use of interruption, NTS exit capacity and investment on their own pipeline networks, we consider that it has the potential to better facilitate achievement of the relevant objectives as well.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC174: *‘Revised tender timescale for DN interruption arrangements’* be made.

Joanna Whittington
Director, Gas Distribution

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

⁸ The “1 in 20” obligation refers to Standard Special Condition A9 *‘Pipeline System Security Standards’* which requires the licensee to plan and develop its system to meet a level of peak aggregate daily demand which is likely to be exceeded in only one year out of twenty. See:

http://epr.ofgem.gov.uk/document_fetch.php?documentid=13197

⁹ *Uniform Network Code (UNC) 90: Revised DN Interruption Arrangements*, Ofgem, 15 March 2007