

Modification proposal:	<b>Uniform Network Code (UNC) 241: Delaying the implementation of the Ad-hoc application principle of the enduring offtake arrangements</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	31 March 2009	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

On 19 January 2009 the Authority approved UNC0195AV<sup>3</sup>, which introduces the National Transmission System (NTS) enduring offtake regime with effect from 1 April 2009. As part of these arrangements, users will be granted an initial amount of enduring annual exit (flat) capacity based on the sum of their maximum firm and interruptible capacity held in gas year (07/08) at each NTS exit point. Users will be notified of their initial enduring annual exit (flat) capacity no later than 1 May 2009.

Users will be able to apply for enduring annual NTS exit (flat) capacity rights at any new or existing NTS exit point during a July annual application window in gas year Yn for use from gas year Yn+4, Yn+5 or Yn+6 onwards. Users will also be able to apply for enduring annual NTS exit (flat) capacity rights at any new or existing NTS exit points via ad-hoc applications. Ad-hoc applications can be made within the period 1 October to 30 June each year (ie the period outside of the annual application and capacity allocation process). All of these bookings are for NTS exit capacity which are effective from 1 October 2012.

However, National Grid Gas NTS (NGG NTS) has proposed that it would be beneficial if the first ad-hoc application period, which would run from 1 April 2009 to 30 June 2009, did not take place.

## The modification proposal

NGG NTS proposes that the first period whereby a user can make an ad-hoc capacity application, as outlined above, is delayed.

NGG NTS believes that this delay would be beneficial because:

- it would better fit with the timeline for submission of the NTS Exit Capacity Release (ExCR) methodology statement<sup>4</sup> to Ofgem for approval<sup>5</sup>. The 0195AV legal text refers to the ExCR in numerous places and without this delay ad-hoc applications could be made prior to the ExCR being approved;

<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> UNC0195AV "Reform of the NTS offtake arrangements (UNC 0116V, 0116BV, 0116CVV, 0116VD, 0116A) and Introduction of Enduring NTS Exit capacity Arrangements (UNC 0195 and 0195AV)", approved on 19 Jan 09

<sup>4</sup> The ExCR sets out the methodology by which NGG will determine how it will release NTS exit capacity

<sup>5</sup> It is anticipated that the ExCR will be submitted by 1 April 2009, with a decision from Ofgem by 1 May 2009

- it would avoid users making ad-hoc applications prior to knowing their actual initial holdings which are not released until 1 May 2009;
- it would seem appropriate to hold an annual application prior to an ad-hoc application.

The proposer envisages the following timetable:

- initialisation of enduring annual NTS exit (flat) capacity holdings by 1 May 2009;
- applications for new or additional capacity in the July 2009 application window, and;
- applications through the ad-hoc process beginning in October 2009.

The proposer considers that this would lead to a better phased timing of applications for 2009; the enduring processes would then apply for each year thereafter. NGG NTS believes that parties would not be disadvantaged by this delay because any ad-hoc application submitted in the period 1 April 2009 to 30 June 2009 could only apply to capacity from 1 October 2012 (the beginning of the enduring period), and parties will have the opportunity to bid for capacity for this period through the July application window.

The proposal notes that a user may still apply via an ad-hoc application in 2009 (from 1 October 2009 to June 2010) and for the same period in each year after.

### **UNC Panel<sup>6</sup> recommendation**

At the Modification Panel meeting held on 19 February 2009, of the 10 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommended implementation of this Proposal.

### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 26 March 2009. 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>7</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>8</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>9</sup>.

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

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<sup>6</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>7</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>8</sup> 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](http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547)

<sup>9</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.

Of the eleven responses to the Joint Office's consultation on the draft modification report, all eleven supported implementation of the proposal. Several of these commented that it was a pragmatic response to the issues highlighted by the proposer and there was general agreement with the proposer's views as to how this proposal might better facilitate the achievement of the relevant objectives. The Authority has considered this proposal against the relevant objectives as follows: -

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipeline system to which this licence relates;*

The proposer considered that implementation of UNC241 would avoid capacity applications being submitted prior to users receiving notification of their initial enduring annual NTS exit (flat) capacity and therefore avoid the potential for inefficient or unnecessary user commitment signals being received. We acknowledge that in the absence of UNC241 being approved this is a possibility, though we consider this somewhat unlikely.

*Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;*

We consider that the main benefit of implementation of UNC241 would be the avoidance of capacity applications being submitted prior to the ExCR (and the associated rules within it) being approved. The submission of applications prior to the rules regarding the release of capacity being approved is clearly undesirable, so preventing this occurrence would be expected to facilitate the achievement of this relevant objective. We note that parties are not disadvantaged by this decision as any ad-hoc application submitted in the period 1 April 2009 to 30 June 2009 could only apply to capacity from 1 October 2012 (the beginning of the enduring period), and parties will have the opportunity to bid for capacity for this period through the July application window.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 241: '*Delaying the implementation of the Ad-hoc application principle of the enduring offtake arrangements*' be made.

**Stuart Cook**  
**Director, Transmission**

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