Consumers and their representatives, gas transporters, gas shippers, gas suppliers and other interested parties

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20 August 2009

Dear Colleague

Gas enduring offtake regime: Licence modification consultation on aggregating baselines at Didcot, Stallingborough and Staythorpe (Responses requested by 17 September 2009)
Notice under section 23 Gas Act 1986

Following the Authority's approval of Uniform Network Code (UNC) modification UNC195AV[1], National Grid Gas (NGG), in its role as National Transmission System (NTS) owner, is implementing the various elements required to initiate the enduring offtake regime. Users have already been informed of their initialised capacity holdings at each exit point for the start of the enduring period[2]. The July 2009 Application Window gave users the opportunity to acquire enduring exit capacity rights and to signal their requirement for incremental exit capacity in future years.

Following the initialisation of capacity holdings NGG identified a problem for Gas Distribution Networks (GDNs). The problem resulted from a disparity between projected exit capacity usage and the baselines set at the fourth Transmission Price Control Review (TPCR4), which covers the period from 2007 to 2012. This disparity could have resulted in significant signals for incremental exit capacity at some GDN exit points when in actuality there is capacity available elsewhere in the GDN area to satisfy the requested capacity. This problem was recently resolved by modifying NGG's gas transporter licence (the "Licence")[3] thereby resetting GDN baselines at a number of offtake points.

Since the resetting of GDN baselines, a further issue was identified by NGG which, without any remedial action, may cause users to unnecessarily request incremental exit capacity. We have previously issued an informal consultation on this issue[4] and this letter discusses the responses received as well as constituting the Section 23 consultation on proposed changes to the Licence.

[1] UNC Modification Proposal 0195AV "Introduction of Enduring NTS Exit Capacity Arrangements" was approved on 20 January 2009 and implemented on 1 April 2009.
[2] Users were informed of their initialised capacities on or before 1 May 2009.
[3] On 16 July 2009 NGG's licence was modified, for further details see the modification notice published on our website www.ofgem.gov.
[4] See the publication 'Gas enduring offtake regime: Informal consultation on aggregating baselines at Didcot, Stallingborough and Staythorpe' published on 30 July 2009, reference number 89/09.

Background

NGG's baseline exit capacity obligations for the enduring period[5] were set as part of TPCR4. In the event that a user signals a reduction of flat capacity at an NTS exit point, the baseline will not reduce. If an exit point user requests additional capacity above the baseline, this will be treated as incremental exit capacity, increasing the enduring obligations at that exit point.

The Uniform Network Code (UNC) distinguishes between the point at which gas is physically taken off the NTS and the point at which NGG deems gas to be taken from the system for accounting and commercial reasons. The UNC defines a Supply Meter Point as the physical location where NGG makes gas available for the offtake of gas – this is the end of the network that delivers gas to a single premises[6]. A Supply Point is a commercial concept and is the notional point that is used for capacity booking purposes, system balancing and for deemed gas flow. In the Transitional Period Supply Points can be either firm or interruptible but never both – in the Enduring Period Supply Points will only be firm.

The issue

NGG has identified three pairs of exit points in its Licence which are geographically very close to one another and are treated as the same Supply Point but which have separate baseline capacities. Table 1 shows the three pairs of offtake points affected and their enduring flat baselines as they currently appear in the Licence.

Table 1: Offtake baseline amounts

Offtake Point	Type of Offtake	Enduring flat baseline (GWh/day)	Merged baseline (GWh/day)
Didcot A	DC - Interruptible	87.29	137.76
Didcot B	DC - Firm	50.47	
Stallingborough (Phase 2)	DC – Firm	28.16	66.50
Stallingborough (Phase 1)	DC – Firm	38.34	
Staythorpe PH1	DC – Firm	38.12	76.24
Staythorpe PH2	DC – Firm	38.12	

If a user requires capacity which exceeds the baseline amount in the Licence it will have to request and trigger incremental exit capacity. This triggering of incremental exit capacity (and the associated revenue driver amount which NGG will earn from this additional capacity) may not be necessary in the case of paired exit points if, in aggregate between the two points, there is sufficient capacity available.

NGG has confirmed that Stallingborough (Phase 1) and Stallingborough (Phase 2) meet the Single Premises Requirement in the UNC[7] which allows them to be considered as a single Supply Point for booking and nomination purposes. This is also the case for Didcot A and Didcot B. Both pairs of exit points have multiple baselines in NGG's Licence. Staythorpe was originally intended to be built in two phases and so two baselines were provided in the Licence – one for phase one (i.e. Staythorpe PH1) and another for phase two (i.e.

[5] Arrangements for booking exit capacity differ between two periods. The Enduring Period relates to capacity for use from 1 October 2012 onwards and relates to the exit capacity regime which the Authority recently approved for implementation. The Transitional Period relates to capacity to be used between 1 October 2008 and 30 September 2012 – it is the exit capacity regime in place prior to implementation of exit reform.

[6] If gas is delivered to more than one premises then this is not a Supply Meter Point but defined as a Connected System Exit Point (CSEP).

[7] UNC G1.4.2 sets out the conditions to be met for qualifying for the Single Premises Requirement. These are that where there are more than one Supply Meter Point in a Supply Point, gas taken from the system at all the Supply Meter Points must (i) be owned or occupied by the same person (ii) be in close geographical proximity to one another (iii) be comprised within common cartilage, and (iv) serve each other in some necessary or reasonably useful way.

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Staythorpe PH2). However, these are now to be built concurrently and there is to be a single Supply Meter Point implying that only one baseline is required in the Licence.

NGG's proposed solution

NGG presented details of this issue and the proposed solution at the Transmission Workstream on Thursday 6 August 2009. NGG has proposed a simple aggregation of the two baseline amounts for each pair of exit points, shown in Table 1. NGG believes that this will minimise the amount of incremental exit capacity being triggered.

In order for this solution to have the desired effect, NGG requires any revision of its Licence by mid September so that it can make the allocations from the July 2009 Application Window on the basis of the aggregated baselines. The accompanying Section 23 notice shows the changes to the Licence that would be required from this proposed solution.

Respondents' views

We consulted on this issue and the proposed solution between 30 July 2009 and 13 August 2009 and received four responses, three of which support implementation of the proposed solution the other did not express support explicitly but agreed with the motivation behind the proposal. Three respondents considered aggregating these pairs of baselines is consistent with development of an economical and efficient network.

In our previous consultation letter, we referred to the issue of assignment of capacity holdings in the event of one of the power stations at a Supply Point being sold. In relation to this, two respondents agreed that the UNC modification proposal UNC263 could be helpful in such circumstances, if it were implemented. However, one of these also pointed out that this issue could be addressed via agreements between parties. Another response thought the issue was little different from exit capacity management at Connected System Exit Points (CSEPs), interconnectors, shared supply points and storage facilities. The responses did not provide any reasons against the proposed licence change to aggregate baselines.

Ofgem's views

We still consider that NGG's proposal constitutes a pragmatic response to the issue arising from separate baselines given to pairs of exit points which are in practice treated as the same supply point. It would seem to be inefficient to have separate baselines which potentially result in incremental exit capacity being triggered when there is unsold baseline available at that supply point.

We consider that aggregating the baselines will facilitate greater use of the existing network and minimise the need for incremental exit capacity. This will be beneficial in terms of developing an efficient network and will help protect consumers from paying higher charges for unnecessary incremental exit capacity.

As mentioned previously, we note that there is a potential issue which might arise from aggregating baselines in situations where there are two shippers at an exit point, for example, if one of the power stations at an aggregated exit point were sold to a third party. The problem is that incumbent shippers currently cannot reassign a proportion of their capacity holdings. UNC modification proposal UNC263[8] has a bearing on this situation. If approved, UNC263 would make it possible for a shipper to allocate all or part of its exit

[8] The modification proposal was published on 12 August 2009. UNC263 aims to remove the restriction that at a given offtake point an Assignor User can only assign exit capacity to an Assignee User its full capacity holding. It proposes that an Assignee User will be allowed to assign to an Assignee User all or part of its NTS exit capacity holdings (for Enduring Annual NTS Exit (Flat) and Annual NTS Exit (Flat) capacity holdings).

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capacity holdings; if UNC263 were not approved then it is open to industry to make further proposals to modify the UNC to address this issue.

Next Steps

Attached to this letter is a Section 23 notice which contains a change-marked version of Table 2 from Annex A of Special Licence Condition C8E in NGG's gas transporter licence. This indicates the changes which are proposed in respect of the three pairs of exit points. Ofgem would be interested in receiving comments from interested parties on the above issues and any other points of relevance. We are asking for responses by **17 September 2009**.

Unless marked confidential, all responses will be published on Ofgem's website www.ofgem.gov.uk and placed in its library. Respondents may request that their response is kept confidential. Ofgem shall respect your request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. Respondents who wish to have their responses remain confidential, should clearly mark the document/s to that effect and give the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Please put any confidential material in the appendices to your responses. Subject to responses received, we would expect to make any licence modification shortly after the consultation closes. If you have any comments or questions on this letter, please contact Richard Miller on +44 (0)141 331 6013 or Richard.Miller@ofgem.gov.uk in the first instance.

Yours sincerely

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