

Modification proposal:	Uniform Network Code (UNC) UNC287: Change system capacity transfers notification time limit from 04:00 hours to 03:00 hours		
Decision:	The Authority ¹ directs that UNC287 is not made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	05 August 2010	Implementation Date:	Not applicable

Background to the modification proposal

System Capacity Transfers involve the transfer of NTS capacity holdings between consenting gas shippers. The System Capacity Transfers³ section of the UNC sets out that users may request the transfer of all or part of their Available National Transmission System (NTS) Entry Capacity in respect of an Aggregate System Entry Point (ASEP), or all or part of their Available Firm NTS Exit (Flat) Capacity in respect of an NTS Exit Point, for any day or consecutive days within the period that the capacity is held.

UNC TPD B5.2.2 stipulates that users are permitted to propose a System Capacity Transfer at any point during the day, but no later than 04:00 hours on either the day itself or first day of a multi-day capacity Transfer Period. Following a request a System Capacity Transfer is deemed to be effective if, within 60 minutes, the transfer is either approved by National Grid Gas (NGG) NTS or it is not rejected by NGG NTS. NGG NTS may reject System Capacity Transfer requests where the Transferred System Capacity exceeds the Transferor User's Available System Capacity; where specific information concerning the request is missing; or where the request is submitted after 04:00 hours. However, NGG NTS has highlighted that because Planned UK Link Downtime⁴ occurs between 04:00 hours and 06:00 hours each day, in the event that it receives a System Capacity Transfer request later than 03:00 hours, it does not have up to 60 minutes within which either to approve or reject it.

The modification proposal

UNC287 proposes an amendment to the Notification Time Limit for System Capacity Transfers as outlined in UNC TPD B5.2.2 and B5.6.2 (d) such that any proposed System Capacity Transfer may only be notified by the Transferor User and the Transferee User no later than 03:00 hours on the day or first day of the Transfer Period. NGG NTS consider that this change is necessary to ensure that they will have a full 60 minutes within which either to approve or not reject a System Capacity Request prior to the start of Planned UK Link Downtime at 04:00 hours.

As part of the proposal, NGG NTS also proposes an amendment to UNC TPD B5.2.5 to clarify that System Capacity Transfer requests may not be withdrawn by a User following notification to NGG NTS, regardless of the duration of the Transfer Period. NGG NTS considers that the existing drafting could be misinterpreted as suggesting that System Capacity Transfer requests could be withdrawn where the duration of the Transfer Period was for longer than a day.

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

³ UNC TPD B5 'Capacity Transfer.'

⁴ The UK Link System is the information exchange system which allows the electronic transfer of information between transporters and shippers. Planned UK Link Downtime is a defined term in the UNC and is used to enable Transporters to operate and maintain the UK Link System effectively.

The proposal was raised by NGG NTS in March 2010. At its April 2010 meeting, the UNC Panel agreed that a number of new issues had been raised in consultation which merited further consideration. In particular, one shipper was concerned about the potential increase in balancing costs which storage sites could face as a consequence of the reduced flexibility of the proposal. In this respondent's view the period between 03:00 hours and 04:00 hours at the end of the gas day was potentially important as it permitted capacity transfers to be completed to balance capacity positions and hence avoid capacity over-run charges. The Panel agreed to refer the Proposal to the Transmission Workstream.

The report of the Transmission Workstream was considered at the panel meeting on 17 June 2010. The report contained data provided by NGG NTS on the number of transfers made between 03:00 hours and 04:00 hours over the period 2005 to 2010. The data revealed that during the period the number of transfers made between these hours was between 0.16% and 1.08% of the total number of transfers made, and between 0.0217% and 0.0866% of the total quantity of capacity transferred. As a consequence the report concluded that the impact on storage services would be minor and the proposal would not affect storage project investment.

The proposer considers that UNC287 is a change/addition to the services provided by xoserve and should be considered as a User Pays Proposal. In the proposer's view Shipper Users would derive some benefit from the change, but on the basis that the principal benefit would accrue to NGG NTS, proposed that implementation costs should be split 90:10 between Transporters and Shipper Users. Total Shipper costs would be pro-rated between Shipper Users based on their NTS Exit (Flat) Capacity holding as a proportion of the total NTS Exit (Flat) Capacity holdings held by all Shipper Users as of 1st October 2012. However, the Rough Order of Magnitude (ROM) estimate of the costs for xoserve⁵ systems development work provided by the proposal indicates that implementation costs are zero.

UNC Panel⁶ recommendation

The Modification Panel considered UNC287 at its meeting on 17 June 2010. Of the nine voting members present, capable of casting nine votes, only three votes were cast in favour of implementing UNC287. Therefore, the Panel did not recommend implementation of this modification.

The Authority's decision

The Authority has considered the issues raised by the proposal and the updated Final Modification Report (FMR) received on 8 July 2010. 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 FMR⁷. The Authority has concluded that implementation of the modification proposal will not, as compared to the existing provisions of the UNC, better facilitate the achievement of the relevant objectives of the UNC⁸.

Reasons for the Authority's decision

⁵ Xoserve are responsible for providing transportation transactional services on behalf of gas transportation network companies to gas Shipper companies.

⁶ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁷ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁸ 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

The proposer considers that the proposal will better facilitate relevant objectives (a), (d) and (f). A consultation respondent further considers that the proposal will better facilitate relevant objective (c). We set out our views on these arguments below.

Relevant Objective (a): the efficient and economic operation of the pipeline system

The proposer considers that the proposal will better facilitate the efficient and economic operation of the NTS by ensuring NGG NTS has up to a full 60 minutes to consider whether or not to approve or reject a System Capacity Transfer. Without this time the proposer considers that it is possible that NGG NTS might not have sufficient time to evaluate whether a User's Available System Capacity would be exceeded by the request and to assess the impact the Transfer would have on the NTS. In the consultation this view was not supported by other respondents. In particular, one shipper respondent considers that the proposal would be detrimental to objective (a), to the extent that, where it prevented System Capacity Transfers taking place, it could inhibit the efficient transfer of capacity between shippers and might in some cases lead to inefficient bookings of capacity or capacity over-run charges.

In our view there is insufficient evidence to support the view that the proposal will better facilitate objective (a). The proposer has not indicated the extent to which, if any, the current arrangements have impacted on the efficient and economic operation of the pipeline system. On the basis of the data presented in the Workstream Report very few System Capacity Transfers take place between 03:00 hours and 04:00 hours, and of these, it is not clear how many NGG NTS were unable to reject because of time constraints or what the system consequences were where these situations arose. On the basis of the evidence presented we do not consider that the proposal better facilitates achievement of relevant objective (a).

The relatively limited level of System Capacity Transfer activity between 03:00 and 04:00 hours suggests that the proposal has limited potential to adversely impact the relevant objective. Nevertheless it is clear that some System Capacity Transfer activity does take place during this period. In the event that this activity was restricted it could result in Shippers having to hold and pay for capacity which they no longer require, and could result in Shippers having to apply for primary capacity in order to meet their capacity requirements. These effects would represent an inefficient use of the pipeline system and, in the event that they were realised, would be detrimental to relevant objective (a).

Relevant Objective (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

One shipper respondent considers that by allowing NGG NTS up to a full 60 minutes to consider all System Capacity Transfer requests the proposal will ensure that NGG NTS considers all requests equally and in so doing would better facilitate the licensee's obligation not to unduly discriminate between users of the pipeline system⁹. In this shipper's view the existing arrangements could be considered discriminatory in favour of shippers submitting System Capacity Transfers between 03:00 hours and 04:00 hours to the extent that due to time constraints NGG NTS might be unable to reject transfer requests submitted within this time.

In our view there is insufficient evidence to support the view that the proposal will better facilitate relevant objective (c). The shipper respondent who considers the proposal will better facilitate this objective has not indicated that System Capacity Transfers requests are currently subject to discriminatory treatment, and from the information provided in the FMR and in the Workstream Report there is no indication that the current

⁹ Gas Transporters Licence, Special Condition Part C5(2) 'Licensees procurement and use of system management services'

arrangements have resulted in discrimination of any kind. Further, the proportion of transfer requests taking place between 03:00 hours and 04:00 hours suggests that shippers do not consider the arrangements to be discriminatory, or at the very least, do not consider the prospect of submitting 'late' requests to be to their advantage. For these reasons we do not consider that the proposal better facilitates achievement of relevant objective (c).

Relevant Objective (d): so far as is consistent with sub-paragraphs (a) to (c), the securing of effective competition between relevant shippers, suppliers and DN operators

The proposer considers that ensuring NGG NTS has up to 60 minutes to consider all requests prior to Planned UK Link Downtime will better facilitate effective competition between shippers by removing the potential for differential treatment of System Capacity Transfer requests. In the proposer's view the existing arrangements permit Users to submit System Capacity Transfer requests at 04:00 hours in the knowledge that NGG NTS cannot reject them. Shipper responses do not indicate that the current arrangements are viewed as detrimental to competition and do not support the proposer's view that the proposal would better facilitate objective (d). A majority consider that the proposal would in fact be detrimental to the relevant objective to the extent that it reduced the commercial flexibility of shippers to perform System Capacity Transfers.

Consistent with the views set out in respect of relevant objectives (a) and (c) we consider that there is insufficient evidence to support the view that the proposal will better facilitate relevant objective (d). Of the System Capacity Transfer requests taking place between 03:00 hours and 04:00 hours the proposer has not indicated how many it was unable to reject as a consequence of time constraints and it is therefore difficult to estimate the impact, if any, that the proposal could have on competition.

Given the relatively small amount of transfer activity taking place between 03:00 hours and 04:00 hours the proposal has limited potential to adversely impact the relevant objective. Nevertheless it is clear that some System Capacity Transfer activity does take place during this period, so the proposal could reduce shipper flexibility. Being unable to transfer unwanted capacity could increase shipper costs which could be detrimental to competition and therefore detrimental to the relevant objective.

Relevant Objective (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the uniform network code.

The proposer considers that the proposal will better promote efficiency in the administration of the code for two reasons. Firstly, by clarifying, as proposed at UNCTPD B5.2.5, that System Capacity Transfer requests may not be withdrawn by a User following notification to NGG NTS regardless of the duration of the Transfer Period, the proposer considers that the proposal will improve efficiency in the administration of the UNC. The proposer considers that the current drafting at UNCTPD B5.2.5 implies that System Capacity Transfer requests can be withdrawn where the duration of the Transfer Period is for longer than a day and this is not the case. Secondly, the proposer considers that amending the Notification Time Limit to 03:00 hours from 04:00 hours will enable NGG NTS to fully comply with its UNC obligations in respect of System Capacity Transfer requests. The proposer considers the current arrangements compromise NGG NTS' ability to do this when they receive applications after 03:00 hours because this does not permit them the required 60 minutes between receiving the request and the start of Planned UK Link Downtime at 04:00 hours.

One transporter respondent agreed with the proposer's view that the proposal will better enable NGG NTS to fully comply with its UNC obligations in respect of System Capacity

Transfer requests. A number of shipper respondents considered that the proposal represents a simpler and more cost effective solution to the problem the proposal seeks to address relative to rescheduling or reducing Planned UK Link Downtime. However, a number of respondents, including those shippers who agreed with this point, also queried the necessity of NGG NTS having 60 minutes to consider System Capacity Transfer proposals, and on the basis that NGG NTS has not identified operational problems with the current arrangements, queried the necessity of the proposal.

On the basis of the evidence provided we do not consider that the existing arrangements compromise NGG NTS' ability to fully comply with its obligations in respect of System Capacity Transfers. We understand the clarification that the proposed change at UNCTPD B5.2.5 seeks to make and consider that this aspect of the proposal may have merit, but the limited explanation or comment on this issue in the FMR or consultation responses makes it difficult for us to fully evaluate whether the existing drafting has caused confusion or whether there is a consensus among shippers that it would be beneficial to make this change. For these reasons, on balance, we do not agree that the proposal will better facilitate relevant objective (f).

Summary

Having evaluated the proposal and the issues raised in the consultation we do not agree that the proposal will better facilitate relevant objectives (a), (c) or (d), and in the case of relevant objectives (a) and (d), we consider that the proposal could be marginally detrimental. We understand the case the proposer has made in favour of relevant objective (f), but we consider these benefits to be marginal, and on the basis of the evidence presented, insufficient to justify implementation of the proposal.

The minutes of the UNC Panel meeting from 17 June 2010 indicate that the proposer considers that if the proposal is not implemented, more use of the 03:00 hours to 04:00 hours window may mean that trades are more likely to be rejected. This information suggests that NGG NTS is not currently experiencing a problem with the System Capacity Transfer arrangements. We consider that it would be appropriate for NGG NTS to monitor the use of the 03:00 to 04:00 System Capacity Transfer window. Should experience indicate that the arrangements are causing operational problems or are not well understood, it would be appropriate for NGG NTS to develop proposals to address these concerns. However, given the potential downsides of this proposal in terms of reduced shipper flexibility and potentially inefficient use of capacity, we consider that NGG NTS should seek industry views on the most flexible way of addressing any concerns.

Implementation Costs and Funding

As we have decided not to direct implementation of the proposal we do not consider it necessary to comment on the User Pays element of the proposal.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification UNC287: Change system capacity transfers notification time limit from 04:00 hours to 03:00 hours is not made.

Stuart Cook

Senior Partner - Transmission & Governance

Signed on behalf of the Authority and authorised for that purpose