

Modification proposal:	Uniform Network Code (UNC) 407: Standardisation of notice periods for offtake rate changes for all National Grid NTS Exit Users (UNC407)		
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:	23 October 2013	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The UNC Offtake Arrangements Document (OAD) places a limit on the rate at which Gas Distribution Networks (GDNs) can vary their offtake of gas from the National Transmission System (NTS). The limit is a maximum of five percent of a GDN's prevailing offtake rate every two hours.³ This is commonly known as the two hour 5% rule ("the rule"). The purpose of the rule is to help avoid the need for network reinforcement by limiting the variability of gas flows from the NTS to GDNs. Other NTS users are not subject to this rule.

During 2011, Wales and West Utilities (WWU) proposed removing the rule to address concerns they had about its potential impact on GDN investment.⁴ In particular, it was concerned that the rule would limit GDN users' ability to accommodate Very Large Daily Meter Customers (VLDMC)⁵. This is because there is no guarantee the NTS gas offtake rate can be managed to match short term variations in demand from these customers. WWU considered the rule was also potentially discriminatory as NTS Direct Connect (DC) customers were not subject to similar limitations on varying their offtake.

WWU also considered that GDNs had been unable to comply with the rule on a consistent basis for their Local Distribution Zones (LDZs), and that the rule had been shown historically to be operationally unnecessary on the majority of days.

During the UNC407 workgroup meetings, National Grid Gas Transmission (NGGT) argued against removing the rule. It considered its existence essential to forecast GDN users' offtake requirements successfully and consequentially being able to limit NTS investment to accommodate excessive variability in LDZ short term gas flows. It also noted that none of what it called "excursions" from the rule to date had coincided with peak gas flows.

NGGT and WWU agreed to assess the likely NTS investment costs if the rule were removed, and GDN compliance costs to manage VLDMC demand flows if the rule were retained. WWU concluded that around £335 million of investment would be required to allow the GDN users to comply with the rule and accommodate their customers' gas requirements. NGGT concluded that between £516 million and £1.4 billion of investment would be required to the NTS if there were no rule limiting offtake variations by GDN users.

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 OAD Section I paragraph 2.3.3

⁴ The first meeting of the UNC 407 workgroup took place during December 2011

⁵ VLDMCs are large end users with a consumption of more than 50,000,000 therms per annum.

In light of this, we encouraged both parties to work together to find an alternative solution not dependent on additional investment in the networks.

The modification proposal

UNC407 is the solution developed by NGGT and WWU. The modification proposes formal UNC arrangements to manage GDN users' requests to vary their gas offtake rate in certain circumstances, as excursions from the rule. This will codify existing practice which currently happens at NGGT's and GDN users' discretion. The modification will not remove the rule from the UNC.

UNC407 proposes to allow NGGT to manage excursions from the rule in a similar manner to the process described in UNC Transportation Principal Document (TPD) Section J⁶ to vary gas flow at NTS exit points.⁷ GDN users will submit an Offtake Profile Notification (OPN) to NGGT outlining their changed rate of offtake and reduced notice period. NGGT will approve these requests or decline them if they consider it will create an NTS operational balancing requirement. In that case, the GDN user will offtake gas in accordance with the rule.

The modification also allows NGGT to issue notices to GDN users if they consider an excursion from the rule will create an NTS operational balancing issue. NGGT will issue these notices at the day ahead stage or on the day the balancing issue is forecast to occur.

UNC407 requires changes to UNC TPD Section I to specify that NGGT will consider an OPN request to vary gas offtake. A change is also required to UNC TPD Section J to allow NGGT to issue notices that an OPN request cannot be accommodated.

NGGT will also amend the Short Term Access to System Flexibility Allocation Methodology. This document describes the process for making short term system flexibility available to NTS users following the submission of an OPN. The amendment will make reference to the notice NGGT can issue if they forecast that allowing an OPN request will create NTS balancing issues.

UNC Panel⁸ recommendation

At its meeting of 19 September 2013, the UNC Panel: (i) considered the workgroup report on the modification proposal and the seven responses to the industry consultation, six of which supported the proposal;⁹ and, (ii) voted unanimously to recommend implementation of the modification proposal.

⁶ The UNC document can be found on the Joint Office of Gas Transporters website: <http://www.gasgovernance.co.uk/>

⁷ Paragraphs 4.5.6 and 4.5.7

⁸ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁹ Six respondents clearly stated support for the proposal. One respondent provided the following comments in summary: We agree that the proposed arrangements represent a pragmatic, economic and efficient solution to the issues raised in the Modification Proposal. Analysis has highlighted that investment-based solutions on either the NTS or GDNs would be uneconomic. Review of the performance against the 2 hour/5% rule has shown low levels of historic compliance with little adverse impact. We believe that it is appropriate to retain the 2 hour/5% rule so enforced when required at or near peak conditions. Publication of the proposed short-term flexibility warning will improve transparency about the system status for all Users.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 19 September 2013. We have considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR¹⁰. We have concluded that:

- 1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹¹; and**
- 2. directing that the modification be made is consistent with our principal objective and statutory duties¹².**

Reasons for our decision

We note that the responses to the Joint Office's consultation overwhelmingly supported implementing the modification proposal. We agree with the proposer, the UNC Panel and those respondents who considered that the modification proposal should be considered to better facilitate achievement of relevant objectives (c) and (f). We consider that the modification proposal is neutral in relation to the other relevant objectives.

Relevant objective (c): Efficient discharge of the licensee's objectives

We agree with the UNC Panel and those respondents who consider UNC407 will help enhance the efficient discharge of the licensee's objectives, in particular Standard Special Condition A9: Pipe-Line System Security Standards.¹³

The rule is intended to limit the short term variability of GDN user gas demand and ensure NGGT can manage the NTS in an efficient and economic manner. However, evidence presented to the UNC407 workgroup demonstrates GDN users often need to vary their short term gas flows as excursions to the rule. Historically, the NTS has been able to meet this need.

UNC407 provides a solution to this inconsistency by establishing a process for GDN users to request excursions from the rule. The solution also ensures that NGGT retains the ability to refuse such excursions if they consider balancing issues could arise. This should allow NGGT to better match the supply of gas to GDN users' demand while ensuring overall security of the NTS is maintained.

The modification also avoids the need for either NGGT or GDN users to undertake network investment, the costs of which would ultimately be borne by end consumers. The alternative solution of removing the rule from the UNC might have required NGGT to undertake NTS reinforcement work to make sure the transmission system was capable of responding to more variable GDN gas offtake rates. Conversely, keeping the rule might have required GDNs to invest in their networks to ensure they could meet their

¹⁰ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹¹ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

¹² 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.

¹³ This condition states the Licensee must plan and develop its pipeline system to meet the number of premises to be supplied by gas, the consumption of gas at those premises and the extent gas supply can be interrupted at those premises.

customers' gas requirements, particularly VLDMCs. From practical experience of excursions from the rule since 2009, neither investment would be necessary to accommodate more flexible gas flows under normal NTS operating conditions.

UNC407 avoids unnecessary investment by implementing a clear and transparent UNC process for the management of GDN gas flows against the rule. It should ensure that GDN user requests to vary gas flow rates in excess of the rule continue to be met so long as no NTS balancing issues are created.

Relevant Objective (f): Promotion of efficiency in the implementation and administration of the Code

We agree with the UNC Panel and consultation respondents that UNC407 will enhance the discharge of relevant objective (f). In particular, the modification will help GDN users comply with UNC rules and obligations.

As stated above, evidence provided to the UNC407 workgroup suggests that GDN users can flow gas as an excursion to the rule under normal NTS operating conditions. To date, the process to facilitate such flows has been managed bilaterally between NGGT and the GDN users. This is not transparent and gives both parties significant discretion to consider variations to the gas offtake rate.

While we note that there has been a number of excursions from the rule previously, we do not consider this to be a reason for directing that this proposal be made. We have however considered the other reasons put forward and agree that the proposed modification better facilitates relevant objective (f). It makes it clear that excursions from the rule will be allowed unless NGGT considers network balancing issues will be created. This provides the benefits of putting in place a transparent UNC process to manage the rule. This should provide greater certainty for GDN users in meeting their customers' short term demand requests and for NGGT to retain the management of the NTS.

It should also lead to more efficient and transparent application of the UNC for all network users.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 407: 'Standardisation of notice periods for offtake rate changes for all National Grid NTS Exit Users' be made.

Andrew Burgess
Associate Partner, Transmission and Distribution Policy

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