

Modification proposal:	<b>Uniform Network Code (UNC) 0510V: Reform of Gas Allocation Regime at GB Interconnection Points (UNC510V)</b>		
Decision:	The Authority <sup>1</sup> directs this modification be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	21 September 2015	Implementation date:	1 October 2015

## Background

The final report of the European Commission's sector inquiry into competition in gas and electricity markets (published in January 2007) noted (amongst other things) the lack of effective competition in European markets.<sup>3</sup>

In response, a suite of legally binding European Union legislation, referred to as the Third Package, on European electricity and gas markets was introduced and adopted on 13 July 2009.<sup>4</sup> The Third Package was transposed into law in Great Britain (GB) by The Electricity and Gas (Internal Markets) Regulations 2011 that came into force on 10 November 2011.<sup>5</sup>

The Third Package creates a new legal framework to promote cross-border trade. It requires a number of legally binding Guidelines and 'Network Codes' to be established and implemented.<sup>6</sup> Taken together, these aim to promote liquidity, improve integration between Member States' gas markets and promote the efficient use of interconnectors to ensure that gas flows according to price signals, ie to where it is valued most.

One such code is the Network Code on Interoperability and Data Exchange (INT).<sup>7</sup> INT was published in the Official Journal of the European Union (OJEU) on 1 May 2015 and applies from 1 May 2016. The Network Code is a Regulation which takes precedence over domestic GB law. This means that, to the extent GB is not already compliant with the INT, implementation of the INT needs to take place by 1 May 2016.

Interoperability is a prerequisite for the good functioning and integration of cross-border gas markets. A lack of harmonisation poses barriers to cross-border gas transport and to the creation of an integrated and competitive internal European energy market. The main objective of INT is therefore to facilitate cross-border gas flows and effective market

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<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> Inquiry pursuant to Article 17 of Regulation (EC) No 1/2003 into the European gas and electricity sectors (Final Report): [http://ec.europa.eu/competition/sectors/energy/2005\\_inquiry/index\\_en.html](http://ec.europa.eu/competition/sectors/energy/2005_inquiry/index_en.html).

<sup>4</sup> In relation to gas, the Third Package includes Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC (the "Gas Directive") and Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 (the "Gas Regulation").

<sup>5</sup> The 2011 Regulations appear here: <http://www.legislation.gov.uk/ukxi/2011/2704/contents/made>

<sup>6</sup> See Article 6 (Establishment of network codes) of the Gas Regulation which sets out the process for establishing EU-wide network codes for gas: <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009R0715>.

<sup>7</sup> Commission Regulation (EU) 2015/703 establishing a network code on interoperability and data exchange rules: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0703&from=EN>.

integration through the application of a number of harmonised principles and common rules.

One element of INT is the introduction of a new allocation regime at Interconnection Points (IPs). An allocation is an amount of gas that is determined as having been delivered to or taken from the system by a shipper on a particular day. In the current GB regime, shippers are required to determine their allocations and then to notify National Grid Gas plc (NGG) as the System Operator (SO). The net aggregate allocated quantity notified to NGG should therefore be equal to the SO's end of day physical measurement of net flows onto the National Transmission System (referred to as 'allocate as measured'). Current arrangements in GB in respect of IPs are that User Agents submit allocations to NGG on behalf of shippers.

With INT, the default allocation rule is for adjacent Transmission System Operators (TSOs) to allocate gas to shippers equal to their nominations (commonly referred to as 'allocate as nominate').<sup>8</sup> Where there is a difference between the aggregate nominated and aggregate measured quantities, the difference (referred to as the 'steering difference') is allocated to an Operational Balancing Account (OBA) managed by the TSOs.<sup>9</sup> If the steering difference exceeds what is allowed by the OBA, TSOs may revert back to allocating gas such that the net aggregate allocated quantity equals the measured volumes (in other words, to revert to the 'allocate as measured' approach).<sup>10</sup>

The allocation regime set out in INT becomes obligatory if one of the TSOs requests to use the rules set out in INT, or if TSOs on either side of an IP fail to agree an alternative allocation rule. NGG's adjacent TSOs have requested that the allocation regime described in INT is used.

### **The modification proposal**

NGG (the 'proposer') raised UNC510 on 8 August 2014 (subsequently varied as UNC510V) to facilitate compliance with INT through the implementation of new rules regarding gas allocations at GB IPs.<sup>11</sup>

UNC510V proposes changes to the allocation regime at IPs such that:

- NGG will allocate gas to shippers equal to their Nominated Quantities.<sup>12</sup>
- NGG and the adjacent TSO will allocate any difference between Measured Quantities and the Net Aggregate Nominated Quantities to an OBA.<sup>13</sup>
- NGG may allocate gas to shippers in proportion to the Measured Quantity if the steering difference in the OBA has been breached and both adjacent TSOs agree it is necessary to do so.

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<sup>8</sup> Nominations are submitted by shippers to the SO in advance of a particular gas day indicating how much gas they intend to take off or put on to the system. This value can be revised by submitting a re-nomination.

<sup>9</sup> The term 'steering difference' has the meaning given to it in Article 2 of INT.

<sup>10</sup> The maximum allowed steering difference is set in the individual interconnection agreements between the TSOs which has been consulted on with network users prior to consultation.

<sup>11</sup> 0510V - Reform of Gas Allocation Regime at GB Interconnection Points (<http://www.gasgovernance.co.uk/0510>).

<sup>12</sup> The term 'Nominated Quantity' has the meaning given to it in the UNC.

<sup>13</sup> The terms 'Measured Quantity' and 'Net Aggregate Nominated Quantity' (the sum of all Confirmed Nominated Quantities) have the meanings given to them in the European Interconnection Document (EID), a sub-document of the UNC and the UNC.

NGG considers that UNC510V better facilitates the achievement of UNC relevant objective (g).<sup>14</sup>

### **UNC Panel<sup>15</sup> recommendation**

At the UNC Panel meeting on 20 August 2015, the UNC Panel considered that UNC510V would better facilitate the achievement of the UNC objectives and the Panel therefore unanimously recommended its approval.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 August 2015.<sup>16</sup> We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.<sup>17</sup> We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;<sup>18</sup> and
- directing that the modification be made is consistent with our principal objective under the Gas Act 1986 and statutory duties.<sup>19</sup>

### **Reasons for our decision**

We consider this modification proposal will better facilitate UNC objective (g) and has a neutral impact with respect to the other relevant objectives.

### ***(g) 'compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators'***

We agree with the proposer and the majority of respondents to the industry consultation on the proposal that UNC510V better facilitates UNC objective (g). Reflecting the new allocation rules within the UNC will ensure timely implementation of INT within the GB framework.

We note that two respondents to the industry consultation supported the proposed modification while one offered qualified support.

One respondent noted that it had concerns around the use of proportional allocation, especially where an adjacent TSO could dictate allocation on the National Transmission System. This was discussed during the development of the modification and the proposer noted that an adjacent TSO currently uses an OBA at the continental end of their

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<sup>14</sup> UNC relevant objective (g) 'Compliance with the Regulation and any legally binding decisions of the European Commission and/or Agency for the Co-operation of Energy Regulators'.

<sup>15</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>16</sup> The FMR is available at the link in footnote 8.

<sup>17</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>18</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>19</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 as amended.

interconnector. The proposer confirmed that no days of proportional allocation have occurred since the OBA was established in 2003. We consider therefore that while the concerns around the use of proportional allocation are valid, it is a low risk event and outweighed by the wider benefits of the new allocation regime.

Another respondent supported the modification but had reservations relating to the transparency of how the steering difference would be calculated and controlled. We note that NGG has discussed this further during consultation on the TSO-TSO interconnection agreements. We encourage NGG to consider how information relating to the OBA and steering difference can be published in a transparent and non-discriminatory way going forward.

Finally, we note that one respondent highlighted differences between NGG and the BBL interconnector with The Netherlands. BBL receives nominations and provides allocations on an hourly basis (while NGG does so on a daily basis). BBL is also unable to retrospectively adjust allocations for hours which have already passed. The workgroup which assessed UNC510 therefore consulted on a variation to the proposal to account for the differences between NGG and BBL. We agree that it is appropriate to account for this difference, and note that this variation is reflected in UNC510V.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC510V: *'Reform of Gas Allocation Regime at GB Interconnection Points'* be made.

**Rob Mills**  
**Head of Gas Transmission**

Signed on behalf of the Authority and authorised for that purpose