

UNC Panel Chair, the Joint Office,
relevant Gas Transporters, Gas
Shippers, and other interested
parties

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UNC728/A/B/C/D Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS: Urgency Application

On 9 June 2020, the Joint Office of Gas Transporters ("JO") received a request from National Grid Gas Transmission ("NGGT", the Proposer) that Uniform Network Code ("UNC") modification UNC728 'Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS'¹ should be treated as 'urgent' and proceed under a timetable approved by Ofgem.² Four more alternatives proposals (UNC728A/B/C/D) were submitted to the JO on the same day. After considering the justification provided for this request, we have decided to grant urgent status for UNC728/A/B/C/D. We set out our reasons below.

Background

On 28 May 2020, we approved modification proposal UNC678A: 'Amendments to Gas Transmission Charging Regime (Postage Stamp)' and decided that it should be implemented on 1 October 2020. On 9 June 2020, NGGT raised UNC728 and requested that it should be treated as urgent and proceed under a timetable approved by the Authority. This modification proposes to introduce a new conditional discount for dis-incentivising inefficient bypass of the National Transmission System ("NTS"). The discount is proposed to be available to directly connected NTS users located at or near NTS entry points. Four more alternatives proposals (UNC728A/B/C/D) were submitted to the JO on the same day. The proposers of these alternatives state that their proposed modifications address the same issues that have been raised under UNC728 and request that these alternatives follow the same timetable as UNC728.

Our decision on urgency

We have considered the Proposer's justification for urgency in respect of UNC728. We have assessed the request against the urgency criteria set out in Ofgem's published guidance.³ The guidance sets out the factors the Authority will consider in reaching a decision on urgency in the context of industry code modification proposals – it is intended to be illustrative and not exhaustive. Each request for urgency will be considered on its merits on a case by case basis by reference to our guidance, and in circumstances where we depart from it, we will explain the reasons why. Ordinarily we take the view that an urgent

¹ <http://www.gasgovernance.co.uk/0728>

² Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this letter.

³ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

modification should be linked to an imminent issue⁴ or a current issue that if not urgently addressed may cause:

- i. A significant commercial impact on parties, consumers or other stakeholder(s); or
- ii. A significant impact on the safety and security of the electricity and/or gas systems, or;
- iii. A party to be in breach of any relevant legal requirements.

In their request for urgency, NGGT states that: "Urgent status is sought on the basis that the need to introduce the mechanism proposed in this Modification is driven by an imminent date related issue, this being the removal of the existing short haul discount arrangement (the NTS Optional Commodity Charge or NTS OCC) which is to take effect from 01 October 2020. [...] If this is not urgently addressed, this would result in a significant commercial impact for certain UNC parties and consumers given that existing bespoke arrangements for the relevant points would cease, meaning they would be subject to 'standard' charges (from October 2020). This would result in a significant commercial impact to certain Users and is likely, in turn, to materially impact the reciprocal charges levied to customers, dependent on how those Users recover transportation costs."

In the impact assessment accompanying our final decision on UNC678 we said that under UNC678A (the modification that will be implemented in October 2020), there could be three routes additional to the status quo that may present a credible risk of bypass and this could potentially lead to additional lost transmission revenue (if these three routes choose to bypass the NTS) of £36m. In our final decision on UNC678 we said 'that the construction or usage of alternative network infrastructure to the NTS which leads to higher costs overall would not represent an efficient outcome'.

For these reasons we consider that the urgency request is justified based on the above criterion (i), namely it is linked to an imminent issue that if not urgently addressed may cause a significant commercial impact on certain users. Specifically, it is possible that higher gas transmission tariffs for some users incentivise inefficient bypass of the NTS which leads to higher costs overall. Criteria (ii) and (iii) are not relevant to this decision and have not been assessed. Note that our decision on urgency does not have any bearing on the implementation date, if any, which will be part of any final decision that we make on UNC728.

The UNC728/A/B/C/D modifications should proceed under the following timetable:

| Process | Date |
|---|--------------|
| Ofgem approval of Urgent status | 12 June 2020 |
| Draft Modification Report issued for consultation | 15 June 2020 |
| Consultation Close-out for representations | 26 June 2020 |
| Final Modification Report available for Panel | 2 July 2020 |
| Modification Panel recommendation | 3 July 2020 |
| Final Modification Report issued to Ofgem | 3 July 2020 |

For the avoidance of doubt, we note that this timetable differs from the one that was recommended by the proposers of UNC728/A/B/C/D, in that it excludes the proposed implementation date. The implementation date, if any, will be part of Ofgem's final decision on UNC728, and therefore should not be included as a part of this urgency decision so has not been included in the timetable above.

To facilitate consideration of compliance of this modification, including any proposed implementation date, with the relevant legislation (including but not limited to Articles 28-32 of the Tariff Network Code) we expect the Joint Office of Gas Transporters to include a

⁴ The imminent issue may be date related.

relevant question within the consultation response template, and expect parties to give this due consideration.

For the avoidance of doubt, in reaching our decision on urgency we have made no assessment of the substance of the proposed modification, including the recommended implementation date, and nothing in this letter in any way fetters the discretion of the Authority in respect of UNC728/A/B/C/D.

Frances Warburton

Director, Energy System Transition

Signed on behalf of the Authority and authorised for that purpose