

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

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UNC764: UNC TPD Section Y (Part A-I) amendments to K_t to align to RIIO2 Licence

On 6 April 2021 the Joint Office of Gas Transporters ("Joint Office") received a request from National Grid Gas ("NGG", the proposer) that Uniform Network Code ("UNC") modification UNC764 'UNC TPD Section Y (Part A-I) amendments to K_t to align to RIIO2 Licence'¹ should be treated as 'urgent' and proceed under a timetable approved by Ofgem². After considering the justification provided for this request, we have decided to grant urgent status for UNC764. We set out our reasons below.

Background

Within UNC TPD Section Y there are references to the NGG Licence. The proposer states that these need to be updated to reflect the new NGG Licence (RIIO2) which is applicable from 1 April 2021.

UNC764 proposes to amend the references in UNC TPD Section Y (Part A-I) for the calculation of K_t , such that they correctly align with RIIO2. K_t refers to the under/over recovery for National Transmission System ("NTS") Transportation owner revenue in line with the Licence.

NGG states that the modification proposal, among other changes, ensures that the correct "polarity" is used for determining how K_t is applied. Specifically, the modification proposal states that it:

¹ <https://www.gasgovernance.co.uk/0764>

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.

*"[e]nsures that the value of K_t is applied correctly such that where, for example, the value of K_t reflects an under recovery, it is **added** on to revenues to collect. Without this change, the UNC as written would **subtract** it rather than add this on, potentially materially affecting the revenues that Transmission Services Entry and Exit Reserve Prices are being set to collect".*

Our decision on urgency

We have considered the proposer's justification for urgency. We have assessed the request against the urgency criteria set out in Ofgem's published guidance³. 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 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.

NGG is requesting urgent status under item (i) significant commercial impact on parties, consumers or other stakeholder(s). The proposer states that commercial impacts to parties would result from an incorrect application of the polarity of the under / over recovery revenues to be included into the Transmission Services Entry and Exit Charges for the Gas Year 2021/22. NGG states that:

"In terms of materiality, the forecast under recovery for the Regulatory Year 20/21 (year April 20 to March 21) is in excess of £100m. Applying the current UNC rules with the incorrect polarity to determine the target revenue in line with the Licence and intentions of the Charging Methodology would mean this is deducted from the base revenue used to set charges rather than added to it. This would result, without further resolution, a compounding issue and impacts to prices presenting significant uncertainty about its timely resolution and impacts to future years' prices. (e.g. a £100m under recovery in year t

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

⁴ The imminent issue may be date related.

would result a £200m understating of revenues to collect for $t+1$. In turn this would then present, all else being equal, a £200m under recovery for year $t+1$. This "K" example of £200m for $t+1$ would then result in a £400m understating of revenues to collect for $t+2$).

Resolving this would mean the appropriate revenues are recovered in the relevant year and do not result in inaccurate target revenues being used for setting Gas Year 21/22 charges with potentially significant roll overs to subsequent years. Thus, the proposal ensures that competition across Users is maintained and not leaving impacts from one year rolling into a different year and potentially impacting different Users from the years in which the revenues originally relate".

We consider that the risk described by the proposer would only arise if NGG chose to follow a strict reading of the UNC provisions, notwithstanding the changes to the new RII02 Licence. This would be an unreasonable course of action, as it would entail that NGG would knowingly use the wrong inputs (ie it would subtract rather than add) to derive the applicable transmission tariffs for Gas Years 2021/22 and beyond. This would be at odds with the provisions of RII02, which trumps the UNC in the hierarchy of the regulatory framework.

Despite our comments in the previous paragraph, on balance 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, given the materiality of the forecast under-recovery for the financial year 2021/21 that NGG is quoting, the application of the K_t value will be a key determinant in the calculation of reserve prices for the subsequent Gas Year. Therefore, it is crucial for all commercial parties, consumers and other stakeholders that the K_t value is applied correctly.

UNC764 should proceed under the following timetable:

Process	Date
Ofgem decision on Urgency	14 April 2021
Modification Proposal issued for consultation	15 April 2021
Consultation Close-out for representations	05 May 2021
Final Modification Report available for Panel	11 May 2021
Modification Panel recommendation	13 May 2021
Final Modification Report issued to Ofgem	13 May 2021

For the avoidance of doubt, we note that this timetable differs from the one that was recommended by the proposer of UNC764, in that it excludes the date of the final Ofgem decision ("Ofgem Determination" in the proposed timetable). We will make a decision on

UNC764 once the Final Modification Report is sent to us and taking into account the consultation responses from all interested parties.

In reaching our decision on urgency we have made no assessment of the substance of the proposed modification and nothing in this letter in any way fetters the discretion of the Authority.

David O'Neill

Head of Gas Markets and Systems

Signed on behalf of the Authority and authorised for that purpose