

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

Email: Gas.TransmissionResponse@ofgem.gov.uk

Date: 15 November 2021

Dear Wanda and colleagues,

UNC modification proposal UNC790: 'Introduction of a Transmission Services Entry Flow Charge' – decision on urgency

We¹ have received a request from National Grid Gas (NGG, "the Proposer") that Uniform Network Code (UNC) modification proposal UNC790: Introduction of a Transmission Services Entry Flow Charge² (hereafter "UNC790") should be given urgent status and follow expedited modification procedures. This letter confirms that we have agreed to that request and sets out the timetable under which the modification will proceed.

Background

On 28 May 2021, NGG published an open letter to all stakeholders saying they aim to propose gas transmission charging reforms to improve predictability, stability, and fairness in the GB charging methodology.³ NGG said they will aim to follow a timetable that will allow implementation of some reforms prior to setting tariffs for the Gas Year commencing 1 October 2022. On 4 June 2021, we published a response to this open letter welcoming NGG's commitment and encouraging NGG and stakeholders to identify areas where change is needed; to lead discussion on options for change; and to commit to an ambitious and realistic timetable to effect change at pace⁴. UNC790 is part of the reforms NGG are aiming

¹ 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.

² The modification proposal is available at <https://www.gasgovernance.co.uk/0790>

³ <https://www.nationalgrid.com/uk/gas-transmission/charging/gas-charging-discussion-qcd-papers> ("May 2021 - Open Letter on the Future Of Gas Transmission Charging").

⁴ <https://www.ofgem.gov.uk/publications/response-national-grid-gas-statement-future-gas-transmission-charging>

to propose for implementation prior to setting tariffs for the Gas Year commencing 1 October 2022.

The modification proposal

UNC790 proposes to revise the methodology for determining Entry Transmissions Services Capacity Reference Prices and would introduce a new, flow-based Transmission Services Entry charge. The Proposer says this modification would achieve a greater degree of year-on-year stability for the prices of Transmission Services Entry Capacity and reduce the overall price differential between Existing Contracts and non-Existing Contracts.

The Proposer says that UNC790 should be treated as urgent and should proceed under a timetable approved by the Authority. They say urgency is sought *“on the basis of the consequential impacts of the current arrangements representing a current issue that, if not urgently addressed at the earliest opportunity, may cause a significant commercial impact on gas shippers and in turn, may have impacts for the consequential charges levied to consumers, potentially across multiple years.”*

The Proposer says that the protection provided to Existing Contracts (long-termed capacity booked prior to 6 April 2017) results in a significant price differential between Existing Capacity and new capacity which is detrimental to competition between shippers and the stability of Entry Capacity Reference Prices. The Proposer presents “Average Entry Reserve Prices” for October 2021 to show that the price of “New” Entry Capacity is 23 times the average price of Existing Contracts in October 2021. The Proposer also demonstrates that significant volumes of Existing Contract capacity are booked in current and future Gas Years up to the Gas Year beginning 1 October 2031. Through UNC790 the proposer is seeking to “reduce the [...] differential between the costs of [Existing Contract] capacity and New Entry Capacity” and to “increase the stability of Entry Capacity Reference Prices”.

The Proposer suggested the following timetable for the modification:

Modification timetable	
Pre-Modification Discussed	5 October 2021
Modification Proposal sent to Ofgem	8 November 2021
Ofgem decision on Urgency	15 November 2021
Modification Proposal issued for consultation	16 November 2021
Consultation Close-out for representations	6 December 2021
Final Modification Report available for Panel	9 December 2021
Modification Panel recommendation	16 December 2021
Final Modification Report issued to Ofgem	17 December 2021

UNC Modification Panel View

Given the circumstances, we have not on this occasion sought a formal UNC Panel view on the proposals, as allowed for under paragraph 10.1.1(b) of the Modification Rules⁵.

Authority decision

We have considered the Proposer's justification for urgency for the modification proposal. We have assessed the request against the urgency criteria set out in Ofgem's published guidance⁶. In general, we consider that an urgent modification should be linked to an imminent issue⁷ or a current issue that, if not urgently addressed, may cause a:

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

We have decided to grant urgency to the timetable proposed on the basis that we think the modification is linked to an imminent issue that, if not urgently addressed, may cause a significant commercial impact on parties, consumers or other stakeholders.

UNC790 seeks to reduce price differentials between Existing Contracts and new Entry Capacity. The Proposer says that these differentials have a significant impact on competition between parties and price stability. We agree that the price differentials presented by the Proposer may cause a significant commercial impact on parties, consumers or other stakeholders. The Proposer also demonstrates that these price differentials are a current issue in the Gas Year commencing 1 October 2021 and future Gas Years up to 2032. While reserve prices for the current Gas Year have already been published and would not be affected by UNC790, we consider the issue to be an imminent one which may impact parties, consumers, or other stakeholders in the Gas Year commencing 1 October 2022 and future Gas Years.

The timetable proposed seeks to allow for the modification to be implemented in time for the proposed changes to the charging methodology to take effect for the Gas Year commencing 1 October 2022. This ambition and the timetable proposed are consistent with our reasons for urgency.

⁵ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

⁶ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

⁷ The imminent issue may be date related.

However, stakeholders should be aware that were modification UNC790 to be approved, implementation in October 2022 may not be possible given the significance of the proposed changes and the need to carry out robust analysis for this modification.

We have heard concerns from stakeholders regarding the impact that urgency may have on governance procedures. Urgent treatment represents a trade-off between normal governance procedures and the need to address urgent issues in a timely manner. Due to the potential significance of the proposal, the Proposer should ensure that they engage with stakeholders in an open and transparent way throughout the modification process.

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.

Yours sincerely,

Eleanor Warburton

Deputy Director, ESO and Gas Systems

Signed on behalf of the Authority and authorised for that purpose