

Modification proposal:	Uniform Network Code (UNC) 796: Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging (UNC796)		
Decision:	The Authority ¹ directs this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	25 May 2022	Implementation date:	1 October 2022

Background

On 28 May 2020, we approved modification proposal UNC678A: 'Amendments to Gas Transmission Charging Regime (Postage Stamp)³ for implementation on 1 October 2020. UNC678A introduced far-reaching changes to the Great Britain (GB) gas transmission charging arrangements and ensured compliance with Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (TAR NC).⁴

UNC678A envisages that National Grid Gas (NGG) will set its transportation charges on a Gas Year basis (i.e. 1 October – 30 September). However, under the price control regime, NGG's allowed revenues are set over the course of a Formula Year (1 April to 31 March). As a result, there are two different Formula Years that fall within each Gas Year period. If it remains unaddressed, this disconnect can cause year-on-year price volatility.

In June 2021, we encouraged NGG to develop Uniform Network Code (UNC) changes to further transparency, predictability and stability within the charging regime.⁵ On 8 December

¹ 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.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ Amendments to Gas Transmission Charging Regime: Decision and Final Impact Assessment (UNC678/A/B/C/D/E/F/G/H/I/J) (28 May 2020) <https://www.ofgem.gov.uk/publications/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij>

⁴ Now incorporated in UK law by the European Union (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020, as amended by Schedule 5 of the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations SI 2019/531.

⁵ Response to National Grid Gas statement on the future of gas transmission charging (4 June 2021) <https://www.ofgem.gov.uk/publications/response-national-grid-gas-statement-future-gas-transmission-charging>

2021, NGG (“the Proposer”) raised UNC796: ‘Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging’.⁶

The modification proposal

The stated aim of UNC796 is to reduce the level of year-on-year volatility in Reserve Prices for NTS Capacity.

Under the existing mechanism, determination of revenues to be collected over the course of the Gas Year only takes into account the allowed revenue for the Formula Year which ends within the Gas Year (1 October to 31 March) without taking account of the allowed revenue for the following Formula Year (1 April to 30 September). This can lead to significant year-on-year volatility in the Reference Prices for NTS Capacity which is detrimental to market confidence and is contrary to the aims of stability and predictability.

To reduce this volatility, the modification proposes to firstly revise the determination of the Allowed Transmission Services Revenue for each Gas Year by taking into account part of the allowed revenue for each Formula Year that coincides with the Gas Year. It also proposes the removal of the Transmission Services Entry Rebate Charge that would otherwise undermine the benefits of this modification.

UNC Panel⁷ recommendation

At the UNC Panel meeting on 17 March 2022, 11 out of the 14 members of the UNC Panel considered that UNC796 would better facilitate the UNC objectives and the Panel therefore recommended its approval. Of the members representing consumers, both the Consumer Voting Member and Non-domestic Consumer Voting Member voted to recommend implementation.⁸

⁶ <https://www.gasgovernance.co.uk/0796>

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁸ https://www.gasgovernance.co.uk/sites/default/files/ggf/2022-03/Determinations%20Record%2017%20March%202022_0.pdf

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 March 2022. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR.⁹

We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant methodology objectives of the UNC.¹⁰

Reasons for our decision

We consider this modification proposal will better facilitate UNC Relevant Code Objective (RO) (d) and UNC Charging Methodology Relevant Objectives (CMRO) (aa) and (c), and will have no impact on the other relevant objectives. Given the similarities between the applicable UNC objectives, we assess them in tandem.

Objective (d), so far as is consistent with sub-paragraphs (a) to (c), the securing of effective competition between relevant shippers, and CMRO (aa) that, in so far as prices in respect of transportation arrangements are established by auction, reserve price is set at a level best calculated to promote competition between gas shippers shippers and between gas suppliers, and CMRO (c) that, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas

The Proposal would have a positive impact on RO (d) and CMROs (aa) and (c).

The Proposer states that the modification is expected to provide more stable and predictable reserve prices compared to the status quo. As a result, the Proposer states Users will have greater confidence in their forecasts of network costs and therefore set their own service costs more accurately, thereby enhancing effective competition and positively impacting RO (d) and

⁹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

¹⁰ 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>

CMROs (aa) and (c). Panel Members agreed with the Proposer's assessment of RO (d) and CMRO (c), noting that a reduction in price volatility would reduce risks for Users, thereby enhancing competition. However, one Panel Member considered that a change to NGG's licence is required in order to implement the modification. We note that Panel Members did not make an assessment of CMRO (aa).

We agree with the Proposer and Panel Members that this modification would have a positive impact on RO (d) and CMROs (aa) and (c). The modification is expected to reduce the volatility caused by changes to Allowed Revenues in the Formula Years that fall within the Gas Year. As a result, we expect that this modification will provide more stable and predictable reserve prices for capacity compared to the status quo. This increased stability will reduce risks for Users when they come to use forecasts of their network costs and set their service costs, thereby giving Users a greater level of confidence and enhancing effective competition.

In response to the Panel Member's statement that a licence change is required in order to implement this modification, the Proposer has said that the modification can function on its own, but a licence change would be helpful as currently NGG "is capped by its licence conditions because it cannot knowingly over-recover its revenue".¹¹ We note this response from the Proposer. We do not agree that a change to the licence is required prior to implementation of this modification.

For these reasons, we consider that UNC796 better facilitates and has a positive impact on RO (d) and CMROs (aa) and (c).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC796: *'Revision to the Determination of National Grid NTS Target Revenue for Transportation Charging'* be made.

Alsarif Satti

Senior Policy Manager, Core Gas Charging and Access

Signed on behalf of the Authority and authorised for that purpose

¹¹ FMR page 16.