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| Modification proposal: | **Uniform Network Code ("UNC") 0761: Arrangements for Interconnectors with additional Storage capability ("UNC761")** | | |
| Decision: | The Authority[1] has decided to reject this modification[2] | | |
| Target audience: | UNC Panel, Parties to the UNC and other interested parties | | |
| Date of publication: | 24 August 2023 | Implementation date: | n/a |

## Background

*The National Transmission System*

The National Transmission System ("NTS") is the network of gas transmission lines which supplies power stations, large industrial users and the gas distribution networks (which in turn supply commercial and domestic consumers) in Great Britain ("GB").[3] National Gas Transmission ("NGT") owns and operates the NTS as the GB Transmission System Operator ("TSO") and is the holder of a gas transporter licence issued by Ofgem.

The NTS is connected to the gas networks of other countries via cross-border transmission lines called gas interconnectors. Interconnectors allow gas to be conveyed between the respective gas transmission systems. In GB, there are currently three gas interconnectors that connect with the NTS. The interconnector operators are certified TSOs and hold gas interconnector licences issued by Ofgem.

Gas shippers, who are also licenced by Ofgem, are companies that buy and sell gas, and then arrange with NGT for gas to be put into, conveyed through, and taken out of the NTS. Shippers pay tariffs to enter gas into or withdraw gas from the system. Distribution networks also pay NTS tariffs to procure the right to offtake gas from the NTS. The amount of gas within the NTS at any time is known as linepack. The acceptable range over which the amount of gas in the network can vary and the ability to further compress and expand the gas is generally referred to as linepack flexibility.[4]

*Gas storage facilities*

Gas storage facilities are separate from the NTS and can be used by shippers to store gas over different time periods. GB currently has eight operational gas storage facilities,[5] which are all either salt caverns or depleted gas fields.[6] These sites offer medium to long

[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] https://www.nationalgas.com/connections/national-transmission-system-connections#:~:text=The%20National%20Transmission%20System%20(NTS,gas%20terminals%20and%20gas%20producers.
[4] https://www.nationalgas.com/balancing/nts-linepack
[5] https://www.ofgem.gov.uk/publications/gb-gas-storage-facilities-2023
[6] In this document the term depleted gas fields includes partially depleted gas fields.

range storage, meaning they fill when prices are lower and withdraw when prices are higher, and are likely to store gas for weeks or months depending on the time of year. Under the Energy Act 2008, the North Sea Transition Authority[7] ("NSTA"), and not Ofgem, is the body responsible for issuing licences in respect of the 'use of a controlled place[8] for the storage of gas'.

When gas exits or enters the NTS at a gas storage facility, it attracts tariffs in the same way as gas entering/exiting the NTS at other points. The tariff levied, however, attracts a discount as a result of Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas (as retained) ("TAR NC").[9] TAR NC provides that a discount of at least 50% will be applied to capacity-based transmission tariffs at entry and exit points to and from storage facilities.[10]

Following Ofgem's decisions to approve UNC727: 'Increasing the Storage Transmission Capacity Charge Discount to 80%'[11] on 18 December 2020, and UNC729: 'Applying a discount to the Revenue Recovery Charge at Storage Points'[12] on 30 July 2021, gas entering or exiting GB storage facilities currently attracts an 80% discount to the transmission services capacity reserve price and revenue recovery charge rate, and is exempt from the general non-transmission services charge ("GNTS")[13] (collectively "the Storage Discount").

## The modification proposal

On 10 March 2021, NGT[14] ("the Proposer") raised UNC761 '*Arrangements for Interconnectors with additional Storage capability*' (the "Proposal"). The Proposal seeks to amend the UNC Transportation Principal Document, principally Section R (Storage).

The Proposer notes that it has been informed by the operator of an interconnector that it intends to offer an additional service to shippers, whereby gas may be offtaken from the NTS, held in the interconnector and later delivered back to the NTS ("the Intended Service"). The interconnector would continue to be available to convey gas to and from GB while offering the Intended Service.

This is the first time that a GB interconnector has proposed such a service. The Intended Service differs from existing storage facilities in that it is short-term in nature (within-day or across a small number of days). As the transportation service would remain the primary use of the interconnector, the Intended Service could only be utilised when sufficient capacity is available (e.g. at times when there is low demand for import/export of gas).

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[7] The NSTA is the business name of the Oil and Gas Authority ("OGA") and the OGA remains the legal name of the NSTA. References to the NSTA should be read as OGA and vice versa.
[8] Under section 2(4) Energy Act 2008, a "controlled place" means a place in, under or over (i) the territorial sea or (ii) waters in a Gas Importation and Storage Zone (within the meaning of section 1(5) of the Energy Act 2008).
[9] 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.
[10] See Article 9(1).
[11] https://www.ofgem.gov.uk/publications-and-updates/unc727-increasing-storage-transmission-capacity-charge-discount-80-decision
[12] https://www.ofgem.gov.uk/publications/unc729-applying-discount-revenue-recovery-charge-storage-points-decision
[13] The exemption of storage from GNTS charges was set out in UNC678A: https://www.ofgem.gov.uk/publications/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij
[14] At the time the modification proposal was raised National Gas Transmission ("NGT") was known by its previous name, National Grid Gas ("NGG"). In this decision letter we will refer to NGG by their current name, NGT.



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As summarised on page 3 of the Final Modification Report ("FMR"), the Proposal would introduce commercial arrangements to the UNC to support the operation of the Intended Service. This includes extending the existing Storage Discount to volumes entering or exiting interconnectors for the purpose of utilising the Intended Service. This would differ from the charges currently levied at entry/exit points to interconnectors, which currently do not receive a discount or exemption.

The Proposal would enable the application of discounted charges by introducing defined terms to the UNC for a "Storage-Enabled Interconnector" and a dual purpose "Interconnector-Storage Connection Point" ("ISC Point"). An ISC point would be novel for GB and distinct from separate Interconnection Points and Storage Connection Points, which are already defined in the UNC. The Proposal provides that only bi-directional interconnectors could be classed as a Storage-Enabled Interconnector.[15]

The Proposal does not include the introduction of separate transmission and storage capacity products at the proposed ISC Points. Instead, bi-lateral arrangements would exist between NGT and the relevant interconnector operator, providing for the interconnector operator to inform NGT of the quantity of entry or exit capacity at the ISC point for a relevant day that would, ex-post, be classified as being used for the Intended Service. It is these volumes, and not those associated with transportation, that are intended to attract the Storage Discount.

Under the Proposal, interconnectors offering the Intended Service would be treated, for the purposes of the management of emergencies, solely as an interconnector. This means that under the Proposal any gas held under the Intended Service could not be directed into the NTS in Stage 2 of a National Gas Supply Emergency.

Whilst only one interconnector has indicated an intention to offer the Intended Service at this stage, the proposed changes under UNC761 are not specific to any particular market participant and would apply to any bi-directional interconnector offering the Intended Service in the future, provided Network Exit Provisions and a Network Entry Agreement between NGT and the relevant interconnector operator are established.[16]

It is estimated by Xoserve[17] that the cost to operationalise the Proposal would be a one-off fee of £605k-£730k, with annual operating costs of £7k-£11k.[18] These costs would be paid initially by industry but would likely ultimately be paid by consumers. If the Proposal was approved and the changes to UNC implemented, these costs would be incurred irrespective of whether any interconnector(s) choose to offer the Intended Service.

**Regulatory framework**

Our understanding is that the interconnector proposing to offer the Intended Service engaged with the NSTA (as the licensing body for offshore gas storage in GB) regarding a similar proposal in 2019. The NSTA issued its minded to position at that time that the service proposed to NSTA represented the commercialisation of linepack and would therefore be most suitably treated as a Pipeline Works Authorisation matter, rather than a gas storage licensing matter. As such, our understanding is that a gas storage licence

[15] Although an interconnector must be able to offer bi-directional physical flow to qualify for the terms that would be introduced to the UNC by the Proposal, the interconnector operator would be able to limit physical flows to a 'net' volume.
[16] The Network Exit Provisions and Network Entry Agreement are existing requirements of the UNC: Transportation Principal Document Section J Paragraph 1.5.2 and Section I Paragraph 1.3.1 respectively.
[17] Xoserve is the Central Data Service Provider for GB's gas market.
[18] Page 18 of the FMR.



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granted by the NSTA is not likely to be sought in respect of the interconnector wishing to offer the Intended Service.

Ofgem's role is to determine whether the proposed changes to the UNC (as described above) are to be approved or rejected by reference to the relevant code objectives, and our principal objective and other statutory duties. This is distinct from a judgement on the Intended Service itself, which could likely be offered by an interconnector without changes to the UNC (although it would be contingent on the introduction of a new service within the interconnector's Access Rules and Charging Methodology, which are determined by Ofgem).

## UNC Panel[19] recommendation

At the UNC Panel meeting on 21 April 2022, the majority of the UNC Panel (8 out of 14 represented members) considered that UNC761 would not better facilitate the UNC objectives and the Panel therefore did not recommend its approval. Of the members representing consumers, the Consumer Voting Member voted to recommend implementation, whereas the Non-domestic Consumer Voting Member did not.[20]

## Our decision

We have considered the issues raised by the Proposal and the FMR dated 21 April 2022. We have considered and taken into account the responses to the industry consultation(s) on the Proposal which are attached to the FMR, the comments of the Workgroup and the comments and votes of the Panel.[21] We have concluded that:

- implementation of the Proposal will not better facilitate the achievement of the relevant objectives of the UNC;[22]
- directing that the modification be made would not be consistent with our principal objective and statutory duties.[23]

## Reasons for our decision

We consider the Proposal would negatively impact UNC Relevant Code Objectives ("RO") (a) and (b) and UNC Charging Methodology Relevant Objective[24] ("CMRO") (a), would have a neutral impact on RO (d) and (g) and CMRO (b), (c) and (e), and would have no

[19] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[20] https://www.gasgovernance.co.uk/sites/default/files/ggf/2022-04/Determinations%20Record%2021%20April%202022.pdf
[21] UNC modification Proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk
[22] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: https://www.ofgem.gov.uk/sites/default/files/2023-03/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current.pdf
[23] 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.
[24] The Panel considered that there was no impact on the CMROs on the basis that the Proposal does not seek to amend Section Y of the UNC Transportation Principal Document ("TPD"). By comparison, some Workgroup members and the Proposer did consider the CMROs to be relevant. We agree that there is an argument that the CMROs may be engaged in circumstances where changes are not made to UNC TPD Section Y and have addressed these objectives as part of our decision.



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impact on the other relevant objectives. Given the similarities between the applicable UNC objectives, in some instances, we assess them together below.

As noted above, our decision considers whether the proposed changes to the code, rather than the Intended Service itself, would better facilitate achievement of the relevant UNC objectives. We note that in assessing the Proposal, the Proposer, Workgroup and Panel have at times made arguments which we consider relate more closely to the Intended Service than the proposed changes to the UNC. For completeness, we have included these statements, and similar comments made by consultation respondents, in our summaries of the industry discussions and responded where appropriate.

***RO (a) the efficient and economic operation of the pipe-line system.***
***RO (b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.***

It is the Proposer's view that enabling interconnectors to provide additional storage services would incentivise greater use of the NTS and provide shippers with an additional service to assist with system balancing. The Proposer considers this would support cost recovery over a wider customer and product base leading to a more economic and efficient use of the system.

Some Panel Members agreed that UNC761 would have a positive impact on RO (a) and (b) because the Intended Service would potentially enhance or increase the utilisation of the existing system(s), if used, and thus would confer a system benefit. In addition, it was commented that there would be improved cross-border utilisation which would enhance security of supply for GB. Others commented that the Proposal would provide an additional flexibility tool for users which may reduce balancing costs for NGT.

A respondent to the consultation noted that the extremely fast churn rate afforded by interconnectors could result in very high utilisation and many multiples of the working gas volume, which could provide increased utilisation of pipeline assets and increased throughput on the NTS, as well as improved security of supply.

Another consultation respondent provided summarised results from analysis that it had conducted and/or commissioned. It stated:

- if 100 GWh/day of capacity was purchased at Bacton interconnection point for 100 days a year, this would equate to potentially £2 million NTS capacity revenue at the Bacton interconnection point;
- the Intended Service could provide an approximate market value of greater than £5 million after allowing for NGT's capacity cost and the interconnector operator's energy related costs, based on analysis of 1-day price spreads between October 2018 and September 2021 for days when the 1-day price spread was positive;
- the Intended Service could potentially unlock value in the region of 0.3-1.5p/therm on a day-to-day basis, representing a market value of circa £500-£5000 per day.[25]

Some Panel Members considered there would be a neutral impact on RO (a) and (b) because the utilisation of the service is currently unknown and the Proposal does not offer any quantification of what may be available nor what may be utilised. Some also

[25] https://www.fluxys.com/en/natural-gas-and-biomethane/empowering-you/customer-interactions/consultations-in-the-uk/2021---consultation-on-the-interconnector-storage-service

expressed uncertainty as to whether balancing costs would be lowered as a result, for example, if the access to the storage discount were to skew the calculations.

Similarly, some consultation respondents stated there was uncertainty over the service and volumes that would be available and questioned if there would be a significant effect on overall NTS throughput volumes or merely a shift from storage facilities to gas held in interconnectors. It was also noted that there may be close to zero contribution to supplies at times of high demand. Consultation responses also noted that the implementation of the Proposal required large costs, which would be paid by industry and likely ultimately by consumers, while there remained uncertainties over the benefits of the Proposal as it was unclear if and how far the service would be used.

*Our view*

We have considered the changes to the UNC which are proposed to support the operation of the Intended Service.

NTS capacity revenue

As the Proposal does not sufficiently codify a mechanism for the calculation of entry/exit allocations for the Intended Service, we consider there is a risk that existing interconnector transmission utilisation could be re-categorised under the Intended Service, such that volumes could erroneously attract an entry/exit tariff discount. This could result in a reduction in NGT revenue collected at the interconnection point and in turn unnecessarily increase costs for users of new capacity, as any revenue shortfall would lead to an increase in the price of new capacity.

In response to industry comments, we acknowledge that the Intended Service would provide the opportunity for existing infrastructure to be utilised at times when it may otherwise be under-utilised. However, we agree with consultation respondents that it is unclear if this would increase system utilisation or merely shift current utilisation from one part of the system (i.e. existing storage facilities) to another. If there was merely a shift, then there would be no increase in NTS capacity revenue as a result of the Intended Service.

Cost and value

We note that there are significant costs associated with the implementation of the Proposal, as well as ongoing operational costs, that would likely ultimately be paid by consumers, and which would be incurred irrespective of whether any interconnector began offering the Intended Service. Whilst we acknowledge that the Intended Service may provide an additional balancing tool to some shippers, we consider that we do not have sufficient evidence that the costs to operationalise the Proposal are proportionate and efficient, particularly given the uncertainty of utilisation and the short-term nature of the Intended Service. We recognise the difficulties being faced by consumers at this time with respect to high energy prices and do not consider that the FMR demonstrates that the implementation costs are proportionate to any benefit conferred to consumers.

Given the short-term nature of the Intended Service, we anticipate shippers utilising it would be forced to withdraw gas after a certain timeframe (in the region of a couple of hours or days), meaning they would be unable to wait to withdraw gas at a time when prices had risen since the point of injection. Ofgem analysis of day to next day price spreads for the period 1 January 2018 to 31 December 2022 show that the price increased on 51% of occasions and fell on 49%, suggesting it is equally likely that a shipper would lock in a higher price than a lower one. We consider that the figures provided by one respondent in response to the consultation inflate the potential market value as they do not take into account days with a negative price spread. We consider it



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would be difficult for a shipper to predict how to effectively utilise the Intended Service in a way which maximised savings and minimised costs.

We have considered industry comments with regard to the value of the Intended Service as a balancing option. We consider that this would ultimately depend on the availability and utilisation of the service. This value will not be realised when interconnector capacity is not available or remains unused by shippers for the Intended Service.

Security of supply

In consideration of industry comments on security of supply, we note that the changes to the UNC include the provision for the ISC Point to be treated solely as an Interconnection Point in an emergency,[26] so the Intended Service would not provide any benefit during an emergency.

We agree that this service is unlikely to be available in times of high demand, as we would anticipate high use of the interconnector import/export capacity at this time, which means the impact on security of supply at times of system stress is likely to be negligible or zero. We also consider that the low volumes and short duration of the Intended Service would create a minimal positive impact to security of supply.

There is also a risk that the Intended Service may inhibit very short-term cross-border trade if day ahead or within-day capacity cannot be made available for transportation if it is utilised for the Intended Service. We consider inhibiting cross-border trade to negatively impact security of supply for GB and connected countries.

For these reasons, we consider that the Proposal would have a negative impact on RO (a) and (b).

***RO (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:***
***(i) between relevant shippers;***
***(ii) between relevant suppliers; and/or***
***(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.***
***CMRO (c) that, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers.***

The Proposer considers that the Intended Service would have a positive impact on RO (d) and CMRO (c) as it would increase the options available to GB users when seeking a storage service or balancing tool and ensure the appropriate transportation charging arrangements are in place for this. They consider this will promote a level playing field through consistency of shipper charges and better facilitate competition between those shippers.

A Panel member considered there would be a positive impact on RO (d) because the Intended Service would provide an additional flexibility tool for users which may reduce balancing costs, assisting competition between shippers. However, some Panel members considered that implementation would have a negative impact because the cost of implementation would be borne by all users though the benefit may only be used by a few. They also commented that there would be the potential for an adverse effect on providers or users of other storage services and that, given the cost of the service to

[26] Section Q of Modification 0761 legal text: https://www.gasgovernance.co.uk/index.php/0761



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shippers and the uncertainty as to utilisation, it is not possible to assert that the balancing costs would be reduced. One Panel member considered that the Proposal did not impact RO (d). All Panel members agreed that there would be no impact on CMRO (c) because the Proposal has no impact on UNC TPD Section Y.

Some consultation responses stated that the Proposal would facilitate competition as it would provide an additional storage and balancing service to shippers, which will increase the size of the market for such services. It was also noted that the storage discount would allow interconnectors with storage services to operate on a level playing field and remove barriers to entry.

Some consultation responses noted, and some Panel members agreed, that the Proposal would lead to discrepancies between the obligations on storage facilities, for example traditional storage facilities would have certain obligations in an emergency and with regards to operating margins that an interconnector may not. A respondent noted this may be anti-competitive.

*Our view*

We have considered the competition impacts on the categories of users specified in the relevant objectives. We have concluded that there are unlikely to be notable impacts on suppliers or DN operators; a view seemingly shared by those engaged in the development of the Proposal, who did not make specific comments in respect of these users. As such, we have focused our assessment on the competition impacts of the Proposal as between shippers.

By codifying some of the arrangements for the operation of the Intended Service, the Proposal would ensure a degree of consistent application across shippers therefore promoting a level playing field. However, we do not consider that this amounts to facilitation of more effective competition between shippers and note, in particular, that the Proposal does not address any existing distortion between shippers.

We agree that increased flexibility for shippers to manage their gas portfolio is in principle beneficial, albeit we note that low volumes and intermittent availability of the Intended Service is likely to reduce any positive impacts. Notwithstanding this, we do not agree that any increased flexibility necessarily improves competition between shippers given that they operate on a level playing field under the status quo and would continue to do so if the Proposal was implemented.

In relation to the argument that negative competition impacts would arise from smearing the costs of implementation and operation across all shippers, when the service may only be utilised by a few, we do not agree on the basis that costs would be recovered on an equitable, non-distortive basis.

Overall, therefore, we consider that the Proposal, if implemented, would have a neutral impact on RO (d) and CMRO (c).

We consider wider arguments made by some consultation respondents and some Panel members (e.g. as regards competition between interconnector operators and storage facilities) are not directly relevant to our assessment under these objectives and given our conclusion that the objectives are not better facilitated by the Proposal, have not addressed them in this decision.



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***RO (g) and CMRO (e) compliance with the Regulation[27] and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.[28]***

The Proposer did not identify an impact on RO (g) or CMRO (e). A Panel member noted that Ofgem should consider whether the Proposal impacts RO (g). Some consultation respondents raised concerns over the legality of the Proposal, principally whether interconnectors meet the definition of a storage facility. One consultation respondent provided legal analysis to support its view that an interconnector transmission line meets the definition of a storage facility.

*Our view*

For the reasons set out in Annex One, we consider that the Proposal is neutral against RO (g) and CMRO (e) as compared with the status quo (TAR NC being a relevant legally binding decision of the European Commission forming Retained EU law). In summary, we reach this conclusion on the basis that the Proposal does not better facilitate compliance with relevant obligations arising from TAR NC, specifically Article 9(1).

***CMRO (a) save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business.***

The Proposer considers that the Proposal would have a positive impact on CMRO (a) because the Intended Service would be subject to the specific NTS charging arrangements applicable to other GB storage facilities, which, in their view, would be an accurate reflection of the fact that gas entering a GB storage facility is subsequently redelivered to the NTS. All Panel members agreed that there would be no impact on CMRO (a) because the Proposal has no impact on UNC TPD Section Y.

Some respondents to the consultation argued that assigning the storage discount to volumes associated with the Intended Service would result in a loss of recovery charges which would lead to an increase in charges elsewhere to compensate for the loss. They also noted that this could be considered an extension of the storage discount to linepack services, rather than storage provided by a storage facility.

*Our view*

The Proposal would put in place changes to the UNC which, if the Intended Service is made available and utilised, would result in a redistribution of costs across different users. Without knowing whether this would result in additional usage of the NTS or merely a shift across entry and exit points, it is difficult to identify how this would impact different users.

However, as set out under RO (a) and RO (b), we consider that the Proposal creates a risk that existing interconnector transmission utilisation could be re-categorised as 'storage' under the Intended Service. Should this occur, there is a risk that transmission flows would attract the discounts only intended for storage flows. This would not be cost

[27] Regulation 2009/715/EC on conditions for access to the national gas transmission networks as Retained.
[28] Insofar as such decision, or part, forms part of Retained EU law.



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reflective as the rationale for the storage discount is to avoid double charging. This recognises the unique position of storage amongst flexibility assets.[29]

Therefore, we consider that this Proposal would have a negative impact on CMRO (a).

***CMRO (b) that, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business.***

The Proposer considers there would be a positive impact on CMRO (b) as in their view the Proposal would take account of the additional use of interconnectors to offer a storage service and hence takes into account developments in the transportation business. All Panel members agreed that there would be no impact on CMRO (b) because the Proposal has no impact on UNC TPD Section Y.

*Our view*

We recognise that the Intended Service would be novel in GB and could be viewed as a development in the transportation business, albeit the Proposal does not obligate any interconnector to operationalise the service. Nonetheless, we consider that the changes proposed to the charging methodology as a result of the Proposal are inconsistent with CMRO (a) as noted above. As such, and for the reasons stated in this letter, we do not consider that the proposed changes properly or appropriately take account of the Intended Service as a potential development in the transportation business.

Therefore, we consider that the Proposal would have a neutral impact on CMRO (b).

**Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority has decided that modification proposal UNC761: 'Arrangements for Interconnectors with additional Storage capability' should not be made.

**Dr Adrian Richardson**
**Head of Energy Security of Supply – ESMS**
Signed on behalf of the Authority and authorised for that purpose

[29] In our UNC727 decision (page 4) we said that: *'The risk of double charging within the GB charging methodology arises from the fact that shippers must pay for gas to exit the NTS in order to be injected into a storage facility and then pay for gas to re-enter the NTS. In addition, the same molecule of gas will have paid a full entry charge when first entering the NTS and a full exit charge when it will exit the NTS to final demand. This is unique to storage amongst flexibility assets'.* https://www.ofgem.gov.uk/publications/unc727-increasing-storage-transmission-capacity-charge-discount-80-decision



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## Annex One

For the reasons set out below, we consider that the Proposal does not better facilitate RO (g) and CMRO (e).

Article 9(1) of TAR NC provides:

"*A discount of at least 50% shall be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities, unless and to the extent a storage facility which is connected to more than one transmission or distribution network is used to compete with an interconnection point*."

The supporting legislative framework, forming the legal basis of TAR NC, is Regulation 2009/715/EC (as retained) ("the Retained Regulation"). This legislation defines a 'storage facility' as:

*'a facility used for the stocking of natural gas and owned or operated by a natural gas undertaking, including the part of LNG facilities used for storage but excluding the portion used for production operations, and excluding facilities reserved exclusively for transmission system operators in carrying out their functions'* [30]

The legislation also includes the following relevant definitions[31]:

*'"interconnector" (a) in relation to Great Britain, means a transmission line which crosses or spans a border between Great Britain and a member State, or between Great Britain and Northern Ireland, for the sole or main purpose of connecting the transmission systems of those countries or territories';* and

*'"linepack" means the storage of gas by compression in gas transmission and distribution systems, but not including facilities reserved for transmission system operators carrying out their functions'*

We have concluded that the Proposal relates to a scenario where an interconnector (as defined) would be engaging in linepack (as defined). Given the novelty of the Intended Service, however, it is necessary to consider whether, in such circumstances, an interconnector can be classified as a storage facility in accordance with the legislative definition and its use in Article 9(1) TAR NC.

As to this, we note the core element of the 'storage facility' definition refers to a 'facility used for the stocking of natural gas'. The terms 'facility' and 'stocking' are not defined in the legislation and we have therefore considered them in light of their natural everyday meanings.

We consider that, whilst there may be an element of ambiguity as to what would be captured by the 'storage facility' definition, particularly in novel cases such as this, it is unlikely that the act of compressing gas in a transmission line (such as an interconnector) would render such equipment 'a facility used for the stocking of natural gas'.

We consider that, whilst a transmission line could be considered a facility in the broadest sense, its use is for the transportation of gas, and the ability to offer linepack services is not akin to the concept of 'stocking' volumes of a product.

[30] Article 2, Regulation 2009/715
[31] Article 2, Regulation 2009/715



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We recognise arguments made by an industry party that the definition focuses on the activity of storing gas rather than the physical characteristics of the facility in which it is stored. Even in applying this logic, we are nonetheless of the view that the Intended Service as a linepack service can be distinguished from the act of stocking or storing gas. Indeed, if a transmission line were to be classified as a storage facility as a result of offering the Intended Service, we consider there would be a risk that the same logic could be extended to other parts of the NTS, or connecting pipelines, where linepack is available.

We note that this interpretation is aligned with the approach taken by the NSTA who, as noted above, indicated that a similar service proposed to the NSTA is best characterised as the commercialisation of linepack such that a gas storage licence does not likely require to be obtained.

This interpretation is also supported by Article 15(2) of the Retained Regulation which requires that: "*Each storage system operator shall offer to storage facility users both long and short-term services*" [emphasis added].

Given that the Intended Service is only available on a short-term basis, we consider any operator offering such a service would be unable to comply with this requirement. This again indicates, in our view, that the Intended Service is distinct from the service envisioned to be offered by storage facilities as defined.

We also consider this conclusion to be consistent with the intention of Article 9(1) TAR NC, which confers the tariff discount on volumes entering/exiting storage facilities. The recitals to that regulation note the rationale for the discount as:

"*In order to avoid double charging for transmission to and from storage facilities, this Regulation* [TAR NC] *should set a minimum discount acknowledging the general contribution to system flexibility and security of supply of such infrastructure*".[32]

In our view, the contribution of traditional storage facilities to system flexibility and security of supply, which the discount seeks to recognise, are not analogous to the limited contribution which may be conferred by the Intended Service:

- Firstly, the short-term nature of the Intended Service means that it cannot offer the same responsiveness to prices or security of supply.
- Further, as recognised under RO (a), we consider that the impact of the Intended Service on system flexibility to be limited based on the low volume of gas that could be stored at any given time and the high usage of interconnectors for transportation.
- Finally, and again as recognised under RO (a) above, we consider the contribution of the Intended Service to security of supply at times of system stress is likely to be negligible or zero. This is particularly highlighted by the fact that the interconnector would continue to be treated as such during emergencies and could not be instructed in the same way as storage facilities.

For these reasons, we do not consider that the Proposal facilitates compliance with Article 9(1) TAR NC and accordingly do not consider it to better facilitate this objective.

[32] Recital (4), TAR NC



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