

Modification proposal:	<b>Uniform Network Code (UNC) 806: Change to Curtailment Trade Price Compensation in Section Q</b>		
Decision:	The Authority <sup>1</sup> has decided to reject this modification <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	9 December 2022	Implementation date:	n/a

## Background

For the purposes of the Uniform Network Code (UNC), a Network Gas Supply Emergency (NGSE) is a Gas Supply Emergency (GSE) that involves or may involve a loss of pressure in the National Transmission System which requires action to prevent one or more GSEs from occurring.<sup>3</sup> To provide a measured, appropriate and co-ordinated response to a NGSE, the Network Emergency Co-ordinator (NEC), in close cooperation with the Gas System Operator (GSO), will follow the management procedure used for managing a NGSE.<sup>4</sup> In the event that Stage 2 of this procedure is reached, the NEC will categorise the type of NGSE: a Gas Deficit Emergency (GDE), a Critical Transportation Constraint (CTC) or a Safety Monitor Breach.<sup>5</sup> In all cases, Firm Load Shedding may be implemented.<sup>6</sup> The users who are subject to Firm Load Shedding will include large gas users such as large gas-fired power stations which produce electricity to the National Electricity Transmission System (NETS). If Firm Load Shedding is implemented, all affected users would receive a compensation payment based on the Emergency Curtailment Quantity and the Emergency Curtailment Trade Price (ECTP).<sup>7</sup>

<sup>1</sup> 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.

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

<sup>3</sup> The definitions of a Network Gas Supply Emergency and Gas Supply Emergency can be found on Page 2 of the UNC-TPD Section Q: [6878571.07 \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk/6878571.07)

<sup>4</sup> T/PM/E/1 is the management procedure used for managing a Network Gas Supply Emergency prepared in accordance with the Network Emergency Coordinator's Safety Case: <https://www.nationalgrid.com/gas-transmission/document/136281/download>

<sup>5</sup> Refer to Figure 6 for the arrangements in place at each of the four emergency stages. Refer to pages 17 and 18 for more information on a GDE, CTC or Safety Monitor Breach: [TRANSCO/E/1 \(nationalgrid.com\)](https://www.nationalgrid.com/TRANSCO/E/1)

<sup>6</sup> Firm Load Shedding is defined in the UNC-TPD Section Q, paragraph 4.1.3.: [6878571.07 \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk/6878571.07). Firm Load Shedding is also known as, and referred to in this letter as, involuntary (compulsory) curtailment.

<sup>7</sup> The Emergency Curtailment Quantity and the Emergency Curtailment Trade Price (ECTP) are defined in paragraphs 6.1.1 (d) and (c) of the UNC-TPD Section Q: [6878571.07 \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk/6878571.07)

## The modification proposal

On 28 March 2022, SSE ("the Proposer") raised UNC modification UNC806: 'Change to Curtailment Trade Price Compensation in Section Q'.<sup>8</sup> UNC806 seeks to modify the UNC to alter the current curtailment compensation payment received by all users that have been involuntarily curtailed (as a result of a Firm Load Shedding instruction). The current curtailment compensation payment is calculated using the ECTP as defined in Section Q of the UNC-Transportation Principal Document (UNC-TPD). The ECTP in respect of a Day of Emergency Curtailment, is currently based on the arithmetic mean of the System Average Price (SAP) determined (under Section F1.2.1(c) or F1.2.2 of the UNC-TPD) for each of the 30 Days preceding the Day of curtailment.<sup>9</sup> The modification proposes to change this calculation of the ECTP from the arithmetic mean of the SAP for each of the 30 Days preceding the Day of curtailment to the SAP of the Day preceding the Day of curtailment which, according to the Proposer, will be more reflective of market prices on the day of curtailment.<sup>10</sup>

## UNC Panel<sup>11</sup> recommendation

At the UNC Panel meeting on 15 September 2022, the majority of the UNC Panel (13 out of a possible 14 votes) considered that UNC806 would not better facilitate the UNC Relevant Objectives and the Panel therefore did not recommend its approval. Among the Panel members representing consumers, both the domestic consumer voting member and the non-domestic consumer voting member did not recommended implementation.<sup>12</sup>

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<sup>8</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>9</sup> The System Average Price for a Day is "the price in pence/kWh calculated as the sum of all Balancing Transaction Charges divided by the sum of the Market Transaction Quantities and Non-Trading System Transaction Quantities for all Balancing Transactions respectively effected in respect of that Day" as stated in the UNC TPD Section F: <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2022-04/8%20TPD%20Section%20F%20-%20System%20Clearing%20C%20Balancing%20Charges%20and%20Neutrality.pdf>

<sup>10</sup> A Day, as stated in UNC – General Terms: Section C – Interpretation, is the period from 05:00 hours on one day until 05:00 hours on the following day: [7048100.01 \(gasgovernance.co.uk\)](http://7048100.01.gasgovernance.co.uk)

<sup>11</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>12</sup> Record of Determinations, which includes voting patterns of domestic and non-domestic voting members for UNC806: [Determinations Record 296 15 Sep 22 v1.0 .pdf \(gasgovernance.co.uk\)](http://Determinations%20Record%20296%2015%20Sep%2022%20v1.0.pdf)

## Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 September 2022. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR.<sup>13</sup> We have concluded that:

- Implementation of UNC806 will not better facilitate the achievement of the relevant objectives of the UNC (Relevant Objectives).<sup>14</sup>

## Reasons for our decision

We consider this modification proposal will not better facilitate UNC Relevant Objective (a) and has no impact on the other Relevant Objectives.

### ***(a) the efficient and economic operation of the pipe-line system to which this licence relates***

The Proposer considers that the modification will have a positive impact on Relevant Objective (a) as there is currently a commercial risk associated with purchasing gas in advance for electricity generation. If gas-fired power generators have their gas supply curtailed in the event of a NGSE, they will likely be exposed to electricity imbalance charges (if they have sold their power ahead of time and are expected to deliver this power). These electricity imbalance charges could be high in the run up to a gas emergency, putting them in financial risk. The Proposer states that, if implemented, UNC806 will offer curtailed users compensation that is more reflective of gas market prices nearer the day of curtailment, reducing the financial risk of involuntary curtailment and better incentivise the purchase of gas in advance. The Proposer states that greater hedging will improve security of supply and reduce the likelihood of (short term) system stress.

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<sup>13</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>14</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART A - Consolidated - Current+Version.pdf](http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf)

Some Panel Members agreed that the modification would have a positive impact on Relevant Objective (a) as it tackles an arrangement crossing the gas and electricity markets. They argued that some curtailed users that are exposed to significant electricity and capacity market penalties may be unable to recover as a business. However, other Panel Members argued that the modification would have a negative impact as it would reduce the existing commercial incentive to enter into voluntary curtailment arrangements through the Demand Side Response (DSR) mechanism or via bilateral commercial interruption arrangements, both of which are designed to be used in pre-emergency situations. The risk of a GDE may rise if engagement in pre-emergency measures is low. This view was also shared by a consultation respondent, who added that the purpose of the unit rate was to establish an incentive to enter into voluntary curtailment (DSR) arrangements.

Our recent decision on UNC822 (dated 14 October 2022) sought to support increased participation in DSR, which is a pre-emergency tool, designed to be used at times of system stress to help avoid a NGSE.<sup>15</sup> There is a risk that this proposal dilutes the signal for eligible users<sup>16</sup> to participate in DSR (voluntary curtailment). We want to ensure that the overall price incentives encourage relevant and eligible users to engage in DSR (voluntary curtailment), where this is beneficial to the overall system. Should a NGSE be declared, Firm Load Shedding would result in disruption and inefficiency in the operation and use of the network as some parties that wish to take gas would be prevented from doing so.

We acknowledge the concerns highlighted by the Proposer and consultation respondents regarding the financial risk to gas generators if they are involuntarily curtailed and are subsequently subject to high electricity imbalance charges. On 6 December 2022, we published our decisions on P448: 'Mitigating Gas Supply Emergency Risks' ("P448")<sup>17</sup> and GC0160: 'Grid Code Changes for BSC Mod P448: "Protecting Generators subject to Firm Load Shedding during a Gas Supply Emergency from excessive Imbalance Charges"'.<sup>18</sup> As a result of these recent decisions, gas generators will no longer be subject to electricity imbalance charges in the event that they are issued a load shedding instruction in a Stage 2 or higher NGSE. We believe that this removes the financial risk referred to by the Proposer in this

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<sup>15</sup> UNC822 Decision Letter: [UNC822: Reform of Gas Demand Side Response Arrangements - Decision | Ofgem](#)

<sup>16</sup> Only a registered user at the supply points that comply with the eligibility rules specified in this DSR framework and methodology may enter offers into the DSR mechanism. Please refer to Section 6.2 of NGG's DSR methodology for more details: <https://www.nationalgrid.com/gas-transmission/balancing/demand-side-response-dsr>

<sup>17</sup> P448 Decision Letter: [Authority Decision on BSC Modification P448 'Mitigating Gas Supply Emergency Risks' | Ofgem](#)

<sup>18</sup> GC0160 Decision Letter: [GC0160 Authority Decision | Ofgem](#)

modification and therefore consider that the main driver of UNC806 has been resolved via P448.

We therefore conclude that overall, the modification has a negative impact on UNC Relevant Objective (a).

***(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***

The Proposer stated that there would be no effect on Relevant Objective (d), but we note that Panel Members considered Relevant Objective (d) during their discussion. Panel Members could not reach unanimous agreement that the modification would have a positive impact due to conflicting views on whether the modification may improve security of supply and secure the operation of market mechanisms which facilitate competition.

Some Panel members stated that the modification will help incentivise users to purchase more gas in advance, which will attract and secure more supplies of gas into the UK (e.g. via LNG), reducing stress on the short-term gas market. This view was shared by some respondents to the consultation. Other Panel Members reiterated the arguments previously mentioned for Relevant Objective (a), as implementing this modification would dilute existing incentives to enter voluntary curtailment arrangements. Some Panel Members also added that there is little evidence to suggest the modification would encourage greater levels of forward contracting for gas.

We do not consider that we have seen any evidence, or convincing arguments in relation to this objective. We therefore conclude that overall, the modification has no impact on UNC Relevant Objective (d).

***(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code***

The Proposer stated that the modification would have a positive impact on Relevant Objective (f), for the reasons that we have addressed under Relevant Objective (a). Panel Members could not reach unanimous agreement on whether UNC806 better facilitates Relevant Objective (f). Some Panel Members believed that the modification would decrease the likelihood of a GDE and thus promote efficient operation of the code, whereas other Panel Members took the opposite view, arguing instead that the modification would increase the likelihood of a GDE.

We do not consider that we have seen any evidence, or convincing arguments in relation to this objective. We therefore conclude that overall, the modification has no impact on UNC Relevant Objective (f).

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority has decided that modification proposal UNC806: 'Change to Curtailment Trade Price Compensation in Section Q' should not be made.

**Maryam Khan**

**Head of GSO Regulation - ESMS**

Signed on behalf of the Authority and authorised for that purpose