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for energy consumers

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

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Date: 08 December 2021

Dear Wanda and colleagues,

**UNC modification proposal UNC791: 'Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking' – decision on urgency**

We<sup>1</sup> have received a request from National Grid NTS (The Proposer) that Uniform Network Code (UNC) modification proposal UNC791: 'Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking'<sup>2</sup> (hereafter "UNC791") 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**

The current increase in global gas prices is putting financial pressure on suppliers and gas shippers. There are existing industry arrangements and processes to handle a scenario where a shipper ceases to trade. These arrangements are principally managed by Xoserve, National Grid NTS and Gas Distribution Networks (GDNs).

The current arrangements provide for suppliers that cease to have arrangements with a shipper for any of their registered meter points to post security and make payments for

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<sup>1</sup> 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.

<sup>2</sup> Modification proposals are available at <https://www.gasgovernance.co.uk/livemods>

energy and transportation charges under a Deed of Undertaking signed with the GDNs and National Grid NTS. The supplier operating under a Deed of Undertaking is unable to nominate gas to the system for its meter points and, all other things being equal, the system will be short by the volume of gas oftaken by the supplier's meter points during this time.

Under the current arrangements National Grid NTS, in its role as residual balancer, would take actions to secure the delivery of additional supplies of gas to meet the demand of the relevant meter points. As the residual balancer, National Grid NTS would procure the gas on the On the Day Commodity Market (OCM) and the costs would be recovered via the Balancing Neutrality mechanism, including the Energy Balancing payments made by the supplier operating under the Deed of Undertaking, meaning National Grid NTS remains cash neutral. These residual balancing actions will feed into the setting of the System Marginal Prices.

### **The modification proposal**

UNC791 proposes to create a new role for National Grid NTS under which it is obliged to procure gas to meet the forecast demand of the meter points for suppliers operating under a Deed of Undertaking if a threshold volume of gas is met. This new role would be the "Contingency Procurer of Supplier Demand" ("CPoSD") and would be separate to its role as residual balancer. As the CPoSD, National Grid NTS would be limited to procuring gas at the National Balancing Point (NBP) but would be permitted to trade using NBP market venues outside of the OCM. Any transactions under this role would not set the System Marginal Prices.

National Grid NTS would be able to sell gas in the event that it had overbought but would, in aggregate, always be in a buying position. The supplier operating under the Deed of Undertaking will pay for its consumers' gas demand at the System Marginal Buy Price and this will feed into Balancing Neutrality, which will be used to fund the settlement and costs associated to this role. An accelerated cost recovery timescale would be used for trades associated with the CPoSD role compared to those associated with residual balancing actions.

### **UNC Modification Panel View**

On 01 December 2021 we sought a formal Modification Panel view on the proposal, as allowed for under paragraph 10.1.1(b) of the Modification Rules.<sup>3</sup> A Panel meeting was held on 07 December 2021 and following a discussion on the issues surrounding the potential

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<sup>3</sup> UNC Modification Rules: [www.gasgovernance.co.uk/sites/default/files/Modification%20Rules\\_13.pdf](http://www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf)

urgency of the proposal, the recommendation of the Panel was to grant urgency on the basis of the proposal being linked to “a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholders(s)”, with eleven votes for urgency and two against.

### **Authority Decision**

We have considered the proposers’ justification for urgency for the modification proposal, as well as the view of the Modification Panel.

We have assessed the request against the urgency criteria set out in Ofgem’s published guidance.<sup>4</sup> In general, we consider that an urgent modification should be linked to an imminent issue<sup>5</sup> or a current issue that, if not urgently addressed, may cause a:

- i. significant commercial impact on parties, consumers or other stakeholder(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.

The Proposer considers that without the implementation of this new proposal, there remains a risk of a commercial impact on Users and that this issue should be addressed urgently. Without UNC791, the Proposer believes that the potential requirement for the residual balancer to take large actions in the OCM to procure this gas may not be the most economic and efficient means to do so and could result in higher system prices for all Users which do not reflect supply/demand fundamentals.

It is also the Proposer’s view that without this modification, National Grid NTS, as residual balancer, may experience challenges with liquidity and this may increase its impact on the market.

The Proposer’s expectation is that if this modification is not progressed under urgent procedures, it may not be possible to be implemented during winter 2021/22, if it is approved, which the Proposer believes is where the greatest risk and exposure to industry is likely to occur.

While we have not made a judgement on the merits of this proposal specifically, we consider that it is appropriate to urgently consider options to minimise the impact of the current wholesale market position on consumers and industry. We are satisfied that the

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<sup>4</sup> Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

<sup>5</sup> The imminent issue may be date related.

progression of this modification proposal and the need for an appropriate response to the current wholesale position and perceived heightened risk of potential shipper exits is "*a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholders(s)*", and have therefore agreed that the modification proposal should follow the urgent timetable as set out below.

Process	Date
Ofgem Decision on Urgency	08 December 2021
Modification Proposal issued for consultation	09 December 2021
Consultation Close-out for representations	24 December 2021, Midday
Final Modification Report available for Panel	06 January 2022
Modification Panel recommendation	12 January 2022
Final Modification Report issued to Ofgem	12 January 2022

We have considered the timetable presented by the Proposer. We recognise that if a large shipper were to be terminated, the consequences could have significant and imminent commercial impacts on industry. For that reason, we are deciding to grant urgency to this timetable, and we urge the Proposer to use the consultation time effectively including by making itself available to affected parties to explore this option at pace.

Due to the complex issues addressed by this proposal, the Authority may decide to publish, and possibly consult on, an Impact Assessment before deciding whether to approve the modification. We will form a final view on this once the Final Modification Report has been issued to Ofgem. Furthermore, as we are considering a range of complex issues and proposals aimed at addressing the impacts of the current wholesale market position it should be noted that the timetable with respect to our decision is subject to change.

Yours sincerely,

**Eleanor Warburton**  
**Deputy Director - ESO and Gas Systems**