

National Gas Transmission plc;
the UNC Modification Panel;
the Joint Office of Gas Transporters;
interested parties.

Email: gas.systems@ofgem.gov.uk

Date: 31 May 2024

Dear Stakeholders,

Authority decision regarding the periodic consultation required by Article 26 of the Tariff Network Code

This letter sets out our¹ decision, in accordance with Article 27(4) of the Tariff Network Code ("TAR NC")², on all items set out in the periodic consultation required by Article 26 of the TAR NC.

Background

Article 26 of the TAR NC provides details on the content and process of the periodic consultation(s) which shall take place *"at least every five years starting from 31 May 2019"*³. It states that *"one or more consultations shall be carried out by the national regulatory authority or the transmission system operator(s), as decided by the national regulatory authority"*⁴. Article 27(4) of TAR NC requires that, *"within five months following the end of the final consultation pursuant to Article 26, the national regulatory authority shall take and publish a motivated decision on all items set out in Article 26(1)"*⁵.

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 document.

² [Commission Regulation \(EU\) 2017/460](#) of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, 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 2019 \(S.I. 2019/531\)](#) which was then itself amended by [the Gas Tariffs Code \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/1393\)](#).

³ TAR NC, Article 27(5).

⁴ TAR NC, Article 26.

⁵ TAR NC, Article 27(4).

Periodic Consultation

On 4 December 2023, we published our decision⁶ to direct National Gas Transmission plc ("NGT"), as the transmission system operator of the National Transmission System ("NTS"), to undertake the periodic consultation required by Article 26 of TAR NC. NGT published a consultation document on 16 February 2024 and the consultation remained open for two months, until 16 April 2024. During the consultation period, one response was received by NGT. In their submission, the respondent agreed with NGT's proposal to continue using a Postage Stamp methodology and stated that they *"do not see the need to deviate from the existing approach to apply the postage stamp methodology⁷ as it provides considerable advantages to the market."* The respondent however requested further consideration be given to adjusting the Entry/Exit ("E/E") split⁸ in relation to Transmission Services revenue allocation, suggesting that *"a modification of the E/E split towards a substantially lower entry share will be vital for the liquidity of the UK gas market and thus should be implemented."*

On 22 April 2024, NGT published the response received and a summary in accordance with the requirements of Article 26(3) of TAR NC. The consultation document, response received and summary can be found on NGT's website⁹.

Our decision

We have considered the requirements of Article 26 and 27 of the TAR NC. We have also considered the response to the periodic consultation. We are satisfied that NGT has fulfilled the requirements of Article 26(1) of TAR NC and we have concluded that any proposed changes to any of the items as set out in Article 26(1) of the TAR NC, where applicable in the Great Britain ("GB") context, should continue to be determined in accordance with the Uniform Network Code ("UNC") following this periodic consultation.

Reasons for our decision

The GB gas transmission charging arrangements are set out in Section Y (Charging Methodology) of the UNC Transportation Principal Document ("TPD")¹⁰. Given the open

⁶ <https://www.ofgem.gov.uk/publications/decision-national-gas-transmission-plc-conducts-periodic-consultation-required-under-article-26-tariff-network-code>

⁷ The Postage Stamp methodology is a single uniform reference price applied to all Entry Points and a single uniform reference price applied to all Exit Points of the NTS. For details, please refer to page 7 of NGT's consultation document.

⁸ Under the current arrangement, NGT recovers their Transmission Services Allowed Revenue through capacity charges and this is split equally between Entry and Exit, with 50% of their Transmission Services Allowed Revenue aimed to be recovered through Entry charges and 50% through Exit charges.

⁹ <https://www.nationalgas.com/charging/gas-charging-discussion-gcd-papers>

¹⁰ See <https://www.gasgovernance.co.uk/TPD>

governance framework in GB¹¹, we would expect UNC signatories wishing to amend charging arrangements to raise UNC modification proposals via the established industry-led process. In accordance with the UNC, the National Transmission System Charging Methodology Forum ("NTSCMF")¹² has been established to be the UNC Workgroup that debates and develops modifications to the transmission charging methodologies in Section Y of the UNC TPD. NTSCMF is also used as the primary forum for gas transmission charging related industry discussion, the identification of issues and methodology development in advance of UNC modification proposals being raised. We note NGT's views, as set out on page 5 of their consultation document, that this consultation should not replace the established UNC modification process as the primary vehicle for progressing industry change to transmission charging methodologies. While we consider that the UNC process and NTSCMF remain useful and appropriate for the development of industry-led modifications and discussion of transmission charging issues, we also consider there is value in providing interested parties, including those who may not regularly attend NTSCMF, with the opportunity to publicly comment on different aspects of the gas transmission charging arrangements in place via this consultation. These comments can be used by Ofgem, NGT and other interested parties to identify and inform areas of future discussion and improvement.

We note the respondent's views that there is no need to deviate from the existing approach to apply the Postage Stamp methodology in determining reference prices. Regarding the respondent's view on adjustment of the E/E split in relation to Transmission Services revenue allocation, we note that the current split is set out in Section Y of the UNC TPD and a modification to the UNC would be required to make any change to it. We understand that this matter has been actively discussed at the NTSCMF as led by NGT since March 2024¹³ with a view to considering the potential benefits and impact of different split options as well as whether or not a proposed change to the current split would better achieve the UNC Relevant Objectives and UNC Charging Methodologies Relevant Objectives¹⁴. We encourage NGT and relevant stakeholders to continue the discussion on this matter at the NTSCMF and we will be monitoring this item closely. We note that the respondent does not comment on any other items listed in Article 26(1) of the TAR NC. As mentioned above, we would expect UNC signatories wishing to amend the charging arrangements to raise UNC modification proposals via the established industry-led process.

¹¹ See Industry code governance: <https://www.ofgem.gov.uk/licences-industry-codes-and-standards/industry-code-governance>

¹² See <https://www.gasgovernance.co.uk/ntscmf>.

¹³ See <https://www.gasgovernance.co.uk/ntscmf> for meeting documents.

¹⁴ The UNC Relevant Objectives and UNC Charging Methodologies Relevant Objectives are set out in paragraph 1 of Standard Special Condition A11 and paragraph 5 of Standard Special Condition A5 of the Gas Transporters Licence respectively.

Decision notice

In accordance with Article 27(4) of the TAR NC, the Authority has taken a decision that any proposed changes to any of the items as set out in Article 26(1) of the TAR NC, where applicable in the GB context, should continue to be determined in accordance with the UNC following this periodic consultation.

Yours sincerely

William Duff

Head of Gas Systems and Operation

Signed on behalf of the Authority and authorised for that purpose