

Richard Pomroy  
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Date: 14 May 2024

Dear Richard,

## **Proposed Modifications to Wales & West Utilities' Connection Charging Methodology**

You submitted a revised copy of Wales & West Utilities' (WWU) Connection Charging Methodology (the "CCM") and a report to us<sup>1</sup> on 17<sup>th</sup> April 2024. You propose a number of modifications to the CCM including adding new subsections on reverse compression, entry of hydrogen for blending and entry of hydrogen into 100% hydrogen systems and correcting numbering errors.

Standard Condition (SC) 4B of your Gas Transporter Licence states that any modifications to the CCM can be vetoed by us. On this occasion, we have decided not to veto the modifications you propose to make to the WWU CCM. Our decision is explained below.

## **Background**

SC 4B of your Gas Transporter Licence sets out the obligations for you to put in place and maintain a connection charging methodology. In particular, SC 4B states that you must review the connection charging methodology at least once in every year and make modifications in order to ensure it continues to achieve the relevant objectives<sup>2</sup>.

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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 document.

<sup>2</sup> SC 4B, paragraph 4

It also states that any modifications must be submitted to us alongside a report which sets them out, explains why they will better facilitate the relevant objectives<sup>3</sup>, and includes a timetable for implementing the changes. We have a 28-day period starting from the date this information is submitted to veto the proposed modifications, i.e. to issue a direction to the licensee that the modifications shall not be made<sup>4</sup>.

The modifications you propose are described in more detail below.

## **Modifications to WWU Connection Charging Methodology**

You propose to amend section 7.1 of the CCM because the scope of the original section (which has been made subsection 7.1.1 in the revised CCM) is limited to gases that are wholly or predominantly methane. You propose to add a new paragraph in section 7.1.1 covering reverse compression which is consistent with the provisions of Uniform Network Code (UNC) 808<sup>5</sup>. You propose to move the last two sentences of what was previously section 7.1 to a new subsection 7.1.4.

You propose to add a new section (section 7.1.2) that deals with options regarding entry of hydrogen for blending. You also propose to add a new subsection (section 7.1.3) that deals with entry of hydrogen into 100% hydrogen systems but you note that currently you do not have any parts of your network that operate on 100% hydrogen.

You also propose to correct a numbering error in section 2 of the CCM by re-arranging the sequence of sections 2.2 – 2.5.

In your report, you suggest that the proposed modifications would better achieve relevant objectives (a), (b) and (d). You propose that the modifications will be implemented and take effect on 20<sup>th</sup> May 2024.

## **Our comments**

We appreciate your efforts to review the CCM and propose modifications to ensure that it is consistent with relevant modifications made to the UNC. We are content that the proposed modifications to the CCM are in line with the requirements of UNC808.

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<sup>3</sup> The relevant objectives are set out in SC 4B, paragraph 5.

<sup>4</sup> SC 4B, paragraph 6

<sup>5</sup> UNC808 enables a Distribution Network Operator (DNO) and an Independent Gas Transporter (IGT) to enter into a bilateral 'operator to operator' agreement, enabled by the IGT Arrangements Document (IGTAD) and containing Network Entry Provisions, to allow physical gas to be offtaken from a DNO by an IGT, compressed to a higher pressure, then returned to the same DNO by the IGT, through a process known as reverse compression. Relevant documents, including the Final Modification Report and Ofgem's decision letter, can be found in the following website: [0808 - Reverse Compression | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](https://www.ofgem.gov.uk/0808-reverse-compression-joint-office-of-gas-transporters)

We also appreciate your efforts to propose modifications which seek to prepare for the possible injection of hydrogen into your network. We do not intend to veto the proposed two new subsections on entry of hydrogen for blending and 100% hydrogen systems respectively, which each aim to reflect the latest developments in this area. However, we consider that further review and further modifications to these subsections will likely be required to appropriately explain the methods and principles that WWU will adopt in determining the charges for hydrogen connections. We appreciate that hydrogen use and transport, including both blending and 100% hydrogen systems, are topics that are being explored by the industry at pace and you may not have sufficient information at this stage to propose such modifications. We would therefore recommend that you keep these relevant sections of the CCM under review and propose necessary modifications as and when you are able to do so in accordance with paragraph 4 of SC 4B.

Regarding the sentence *"arrangement (a) does not require changes to the Uniform Network Code but arrangement (b) will do"* in the proposed section 7.1.2, we note your explanation in your covering email on 17<sup>th</sup> April 2024 that you think *"an arrangement whereby the party injecting hydrogen as a blend takes natural gas out of our system blends it and re-enters it with the hydrogen will need a modification to the Uniform Network Code. The reason being is that if the gas exits the DNO System then exit charges would be payable even though the gas is being re-entered with the blended hydrogen. To avoid the blender being charged to exit gas the Uniform Network Code would need amending to remove these charges for the gas that exits the DNO System and then re-enters it."*

As you are aware, any proposal to modify the UNC must be raised and processed in accordance with the UNC modification process as set out in the Gas Transporter licence and UNC. While we note that the above sentence aims to set out WWU's views on whether and how the UNC should be amended regarding potential hydrogen blending options, we would like to emphasise that our present decision to not veto these CCM modifications does not constitute an endorsement from us on whether or not a modification to the UNC should be made in a particular circumstance or for a particular purpose. This also does not fetter our decision on any potential UNC modification.

## **Decision Notice**

In accordance with Standard Condition 4B of the Gas Transporter Licence, the Authority has decided not to veto these modifications to the Connection Charging Methodology of Wales & West Utilities.

In the interests of transparency, we will publish this letter on our website.

Yours sincerely

**William Duff**

**Head of Gas Systems and Operation**

Signed on behalf of the Authority and authorised for that purpose