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Interested parties

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Date: 29 June 2018

Dear all,

**UNC636 'Updating the parameters for the NTS Optional Commodity Charge':  
Request for evidence to inform our decision**

On 21 June 2018 the Authority<sup>1</sup> received the Final Modification Report (FMR) in respect of UNC636 'Updating the parameters for the NTS Optional Commodity Charge'. UNC636 seeks to change the current rules for setting the 'Optional Commodity Charge' (OCC) tariff (which applies to certain exit points associated with an entry point on the NTS) in order to reduce the level of other charges which are picked up by those gas customers who are not eligible for this tariff. The panel did not recommend the implementation of any of the Modification proposals.

In order to inform our decision on UNC636 (including the four proposed alternatives) Ofgem wants affected parties to provide more information. We are requesting responses to this letter by **5pm on 13 July 2018**. We note that several affected parties have asked in their interactions with the Panel for UNC636 to be dealt with quickly to minimise uncertainty and disruption.

The remainder of this letter outlines the background to this request and sets out the further information we want in order to inform our decision.

**Background**

In October 2017 Vermilion Energy Ireland Ltd raised UNC636.<sup>2</sup> This was considered by the UNC Modification Panel (the Panel) at its meeting on 19 October 2017 and sent to workgroup for development. Subsequently, alternate modification proposals were raised by industry and sent to the workgroup for development. The workgroup report was considered by the Panel at an extraordinary meeting on 23 May 2018 and sent out for industry consultation. The Panel then considered the FMR at its meeting on 21 June 2018. At that meeting the Panel did not recommend implementation of any of the modification proposals. The Panel considered that no clear majority view existed on the preference of whether any of the proposed modifications better facilitates the Relevant Objectives.

UNC636 was raised in October 2017 to consider an update to the parameters of the OCC to address what the proposer considers to be an issue of cross subsidisation (the proposer

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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> <https://www.gasgovernance.co.uk/0636>

refers to estimates by National Grid that this is around £150m per annum) from those unable to use the OCC (largely Distribution Network connected load) to those that can avail of this charge (National Transmission System direct connects including interconnectors). The proposer notes that the current charges have not been updated for 20 years and considers that they are no longer representative of the costs of building by-pass pipelines.

## **Content of the FMR**

The FMR discusses two areas where we consider further information is required to inform our decision:

- how any of the proposed changes, if approved, would affect any proposed pipeline developments; and
- any competition and distributional impacts of any change.

The FMR states that these modifications should be considered likely to have a material impact on competition in, or commercial activities related to, the shipping, transportation or supply of gas.

The FMR sets out the views of some workgroup participants that the proposed changes would have significant distributional impacts, with a small number of parties seeing a large increase in transportation charges, whilst others would see a small decrease. The analysis within the FMR showed the redistribution of charges (between those currently paying the OCC and those not paying it) in respect of each of the modification proposals in aggregate. The FMR also set out the following on the impacts of the redistribution of charges:

- Some workgroup participants felt that the increased OCC could put some of those NTS direct connect consumers (large I&C) out of business;
- If demand fell on the Interconnection Points because the OCC is too high, increased costs (gas and electricity) could be picked up by consumers;
- Electricity generation - increased electricity costs could be passed on to consumers, as a result of an increase in the OCC;
- Attracting gas to GB – a concern was raised that if the OCC is too high, then flows could be diverted to other markets;
- Trading – future trading would carry on with regards to flows remaining on the OCC, although there would be a need to a sufficient notice period to reduce the impact on trading.

The FMR also discussed the availability of information in respect of building by-pass pipelines, both in terms of costs and potential building. The proposer encouraged any details to be provided to National Grid or Ofgem (if details are confidential and could not be provided within the workgroup report). The workgroup also assumed that contracts and specific investment projects will be confidential and therefore parties would be best to share details with Ofgem.

## **Responses to the FMR**

A number of respondents to the FMR raised varying concerns regarding the commercial impact of the proposals. These concerns included:

- Implementing a change in October 2018 will expose Users of the OCC to commercial risk in respect to contracts already agreed and give little time for the market to react before another change is made.
- That Industry is unable to properly assess the impacts of the proposals as the analysis does not attempt to take into account any possible changes in consumption behaviour e.g. in response to higher OCC rates, nor does it focus on the impacts on individual customers (for commercially sensitive reasons).

- That each of the five proposals will result in material changes to the transportation tariffs and will have significant impacts on commercial relationships and consumers. Also, they considered that the analysis provided is not sufficient to properly quantify the impacts on: individual customers and sectors, the UK economy and security of supply, contractual and trading disruptions, real impacts on all customers (the analysis provided does not assume any variations in demand by OCC users if the new charges are implemented; hence there is a significant potential that benefits to domestic customers may be overestimated).

Three respondents provided specific information in respect of the possible impacts of the proposals on their businesses.

### **Request for further information**

Any FMR on a proposed modification should contain sufficient information and analysis to enable us to make a decision on whether a proposed change better facilitates the UNC relevant objectives, and whether it is consistent with our principal objective and statutory duties. Given the commercial sensitivities that have been highlighted in this case, we are disappointed that industry participants have not sought to provide information to us proactively. This is particularly relevant given the timescales for decision making and the recognition of insufficient evidence that have been highlighted in the responses to the FMR.

In order for us to make an informed decision on UNC636, we are therefore asking interested parties to provide further information to that included in the FMR and in industry's responses. In particular, we are requesting:

- Detailed evidence of any impact of each of the 636 modification proposals on interested parties' businesses. We note the level of information provided publicly by one respondent to the industry consultation, and would therefore expect to be provided with a greater level of detail from each party in respect of this request for information. We would particularly expect to receive such information from those parties currently paying the OCC.
- Information relating to any proposal for building a by-pass pipeline. Such information should include details of the likely costs that would be incurred.
- Detailed evidence in respect of the distributional impacts of each of the 636 modification proposals. Such information should cover the areas highlighted in the FMR, and set out in this letter.

### **Any information should be received by Ofgem by 5pm on 13 July.**

You can ask for us to keep your response confidential. We'll respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want your response to be confidential, you should clearly mark the document(s) and provide a brief reason for confidentiality.

In order to preserve the confidential nature of the information being provided, the information must be sent to Ofgem via a designated Huddle workspace by no later than **5pm on 13 July 2018**. To this end please tell us by emailing [Gas.TransmissionResponse@ofgem.gov.uk](mailto:Gas.TransmissionResponse@ofgem.gov.uk) by **5pm on 10 July 2018** the names and email addresses of the person(s) responsible for your company's information submission.

For the avoidance of doubt nothing in this letter in any way fetters our discretion in respect of these proposals. Following receipt of any information in response to this letter, Ofgem will review the information provided and consider the appropriate way forward.

If you have any queries or comments in relation to the issues raised in this letter, please contact David.O'Neill@ofgem.gov.uk.

Yours faithfully,

Andrew Burgess  
Deputy Director, Charging & Access