

Joint Office, relevant Gas
Transporters, Shippers and other
Interested parties

25 January 2019

UNC678: Amendments to Gas Transmission Charging Regime (UNC678)

On 17 January 2019, the Joint Office of Gas Transporters (“**JO**”) received a request from National Grid Gas plc (“**NGG**”, the Proposer) that Uniform Network Code (“**UNC**”) modification UNC678 ‘Amendments to Gas Transmission Charging Regime’¹ should be treated as ‘urgent’ and proceed under a timetable approved by Ofgem.² After considering the justification provided by NGG for this request, we have decided to grant urgent status for UNC678. We set out our reasons for doing so below.

Background

The Tariff Network Code (“**TAR NC**”)³ sets out principles and requirements which harmonise gas transmission tariff structures that contribute to European market integration, enhance security of supply, and promote interconnection among gas networks. This necessitates changes to the gas transmission charging arrangements in Great Britain (“**GB**”). TAR NC is expected to be implemented in GB via changes to the charging methodology in the UNC. Chapters II, III and IV of TAR NC that relate to Reference Price Methodologies (“**RPM**”), Reserve Prices and Reconciliation of Revenue respectively, shall apply from 31 May 2019.⁴

In 2015, Ofgem concluded its Gas Transmission Charging Review (“**GTCR**”) of gas transmission entry charging arrangements. We undertook the review in light of significant and ongoing changes to the patterns of gas flows on the National Transmission System (“**NTS**”) and the upcoming (at the time) introduction of TAR NC. We invited industry to lead this work via the UNC code modification process. After leading its own review (“the Gas Charging Review, **GCR**”),⁵ industry developed UNC621 and 10 alternative proposals (“**UNC621A – L**”).⁶ On 20 December 2018, we concluded that none of the UNC621 modifications proposed by industry were compliant with TAR NC and therefore were not capable of being implemented.⁷ In our decision we noted that “we expect industry to ensure GB is compliant with the requirements of the TAR NC as soon as possible”.

¹ <http://www.gasgovernance.co.uk/index.php/0678>

² 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.

³ Commission Regulation 2017/460.

⁴ Article 38(3) of TAR NC.

⁵ Joint Office NTS Charging Methodology Forum (NTS CMF) Gas Charging Review.

⁶ Referred to collectively as the ‘UNC621 modifications’. UNC621G was withdrawn during the modification development process. There was no UNC621I.

⁷ Decision to reject UNC 621/A/B/C/D/E/F/H/J/K/L (20 December 2018): <https://www.ofgem.gov.uk/publications-and-updates/uniform-network-code-unc-621abcdefghijkl-amendments-gas-transmission-charging-regime>

On 17 January 2019, NGG raised UNC678. UNC678 states that it seeks to introduce gas transmission charging arrangements that produce stable and predictable transmission charges and ensure compliance with TAR NC. The Proposer requests that UNC678 follows urgent procedures, as material elements of this modification proposal are driven by an imminent date-related issue, namely the forthcoming entry into force of Chapters II, III and IV of TAR NC on 31 May 2019. NGG provides two grounds to justify its request:

- First, NGG notes that if UNC678 is not treated as an urgent modification, this could cause UNC parties to be in breach of relevant legal requirements, as the prevailing NTS Charging Methodology would not be compliant with TAR NC.
- Second, NGG states that UNC678 will impact all parties that pay transportation charges and/or have a connection to the NTS. As a result, the Proposer claims that UNC678 poses a significant commercial impact on all parties mentioned. This includes impacts on the reciprocal charges levied to customers and for interested stakeholders of NTS customers and, in turn, how they recover costs.

Our decision on urgency

We have considered the Proposer's justification for urgency in respect of UNC678. We have assessed the request against the urgency criteria set out in Ofgem's published guidance.⁸ In general, we consider that an urgent modification should be linked to an imminent issue⁹ 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.

We note that UNC678 is linked to the forthcoming entry into force of Chapters II, III, and IV of TAR NC on 31 May 2019. If this imminent date-related issue is not addressed, the NTS Charging Methodology contained in the UNC will not be compliant with these requirements of TAR NC at the point in time in which that is required. Failing to achieve timely compliance with TAR NC would therefore cause NGG to be in breach of relevant legal requirements.

We consider that the urgency request is sufficiently justified based on the above criterion (iii) and taking into account that industry has already tried to secure compliance with the TAR NC. As such, we have not considered the other grounds for urgency raised by NGG.

⁸ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

⁹ The imminent issue may be date related.

The Proposer has set out the timetable below to develop the UNC678 proposal:

Process	Date
Ofgem decision on urgency	25 January 2019
Workgroup 1 - "Approach. Compliance"	29 January 2019
Workgroup 2 - "Integration of RPM, FCC, Revenue Recovery and existing contracts"	31 January 2019
Workgroup 3 - "Multipliers and Discounts. 'Shorthaul' approach" (part of NTSCMF)	05 February 2019
Workgroup 4 - "Compliance. FCC"	11 February 2019
Workgroup 5 - "Non-transmission charges. Final overview"	13 February 2019
Workgroup 6 - "Workgroup Report"	14 February 2019
Workgroup 7 - "Workgroup Report"	18 February 2019
Workgroup 8 - "Workgroup Report"	25 February 2019
Workgroup 9 - "Workgroup Report"	27 February 2019
Workgroup 10 - "Workgroup Report. Compliance"	04 March 2019
Workgroup 11 - "Finalise Workgroup Report"	06 March 2019
Draft Modification Report issued for consultation	08 March 2019
Consultation Close-out for representations	05 April 2019
Final Modification Report available for Panel	12 April 2019
Modification Panel decision	18 April 2019
Final Modification Report issued to Ofgem	23 April 2019

We consider that the timetable provides stakeholders with an opportunity to develop the modification proposal, building on the work that has already been done on the development of the UNC621 modifications. We expect the UNC Modification Panel to treat any other related modification proposals on gas transmission charging arrangements seeking to deliver compliance with TAR NC as alternatives to UNC678.

For the avoidance of doubt, in granting the request for urgency we have made no assessment of the merits of the proposal and nothing in this letter in any way fetters the discretion of the Authority in respect of UNC678.

David O'Neill

Head of Gas Systems, Energy System Transition

Signed on behalf of the Authority and authorised for that purpose