

Modification proposal:	<b>Uniform Network Code (UNC) 701: Aligning capacity booking under the UNC and arrangements set out in relevant NExAs</b>		
Decision:	The Authority <sup>1</sup> directs modification UNC701 should be made. <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	27 May 2021	Implementation date:	To be confirmed by the code administrator

## Background

In certain cases, gas transporters enter into a bilateral contract with users offtaking gas from their gas transportation network, known as a Network Exit Agreement (NExA). A NExA details the user's obligations and rules when offtaking gas, including its allowed limits in respect of Supply Point Capacity and the Supply Point Offtake Rate. The UNC also sets out the allowed Supply Offtake Quantity (SOQ)<sup>3</sup> and Supply Hourly Quantity (SHQ)<sup>4</sup> levels for contracted parties.

NExAs are not flagged or instantly visible in central systems. There is also no process in place to ensure the SOQ and SHQ levels in a NExA and those permitted under the UNC are aligned. This can result in discrepancies where a shipper books more capacity on the system than

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986

<sup>3</sup> At Daily Metered (DM) supply points registered supply point capacity is equal to the Supply Point Offtake Quantity (SOQ), where for Non-Daily Metered (NDM) the SOQ is calculated using the supply point End User Category (EUC) and the appropriate load factor. However, the Final Modification Report (FMR) for this modification generally refers to Supply Point Capacity and SOQ interchangeably.

<sup>4</sup> The FMR refer to Supply Point Offtake Rate and the Supply Hourly Quantity (SHQ) interchangeably, with SHQ being the maximum hourly consumption of a given supply point.

permitted in its NExA, or a situation where Provisional Monthly Supply Point Capacity (PMSOQ)<sup>5</sup> ratchets up to a greater level than in its NExA.<sup>6</sup>

## **The modification proposal**

UNC701 was raised by Northern Gas Networks (the Proposer) and seeks to ensure that capacity requested under the UNC at Supply Points on Gas Distribution Networks (GDNs) cannot exceed that allowed by the NExA, without a referral to the gas transporter.<sup>7</sup> It proposes that any new, or change in, daily capacity or hourly flow for Supply Meter Points requested under the UNC should not exceed the value stated in the NExA. It also proposes that the PMSOQ should not exceed that value as outlined in the relevant NExA. Where a site ratchets, the Daily Metered (DM) SOQ cannot ratchet above that listed in the NExA.

In respect of Class 1 and 2 Supply Points,<sup>8</sup> any requests for new, or changes in, system capacity made by a shipper shall not exceed either the DM SOQ or SHQ set out in the relevant NExA. Where there is only an SHQ detailed in the NExA, the SOQ value will be taken as a calculation of 24 times the SHQ value as outlined in the relevant NExA.

## **UNC Panel<sup>9</sup> recommendation**

At the UNC Panel meeting on 21 May 2020, Panel members agreed that modification UNC701 would better facilitate UNC relevant objectives (a), (c) and (f), and recommended its approval.<sup>10</sup>

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<sup>5</sup> As dictated in UNC TPD Section B 6.2, for DM Supply Points the Provisional Monthly Supply Point Capacity (PMSOQ) is either 2 times the prevailing Supply Point Capacity (SOQ) or 16 times the Supply Point Offtake Rate (SHQ), whichever is lesser.

<sup>6</sup> The Ratchet process occurs when a site's Daily Metered Supply Point Capacity (DMSOQ) is breached, and the capacity ratchets up to the point of the breach. The process is designed to stop once the site ratchets up to the PMSOQ level. The Supply Point Ratchet process and calculations are set out in UNC Transportation Principal Document (TPD), Section B 4.7. The TPD can be accessed here: <https://www.gasgovernance.co.uk/TPD>

<sup>7</sup> The FMR highlights that any application for increase in capacity that exceeds the PMSOQ will create a Supply Point Nomination referral to the relevant gas transporter, in line with the existing process in the UNC TPD.

<sup>8</sup> Class 1 and Class 2 sites are Daily Metered (DM) sites, where Class 1 meters are remotely read daily, submitted by the Daily Metered Service Provider (DMSP) while shippers provide daily meter reads for Class 2 sites. Class 1 and 2 sites are generally larger supply points, with the Annual Quantity (AQ) for Class 1 sites being greater than 58,000,000kWh.

<sup>9</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>10</sup> The discussions, representations and assessments made against the relevant objectives by panel members can be viewed in the FMR for UNC701 at: [https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2020-05/Final%20Modification%20Report%200701%20v2.0\\_0.pdf](https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2020-05/Final%20Modification%20Report%200701%20v2.0_0.pdf)

## **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 22 May 2020. We have considered and taken into account the responses to the industry consultations on the modification proposal which are attached to the FMR.<sup>11</sup> We have concluded that implementation of modification UNC701 will better facilitate the achievement of the relevant objectives of the UNC,<sup>12</sup> and directing that the modification be made is consistent with our principal objective and statutory duties.<sup>13</sup>

## **Reasons for our decision**

We have considered the impact of this modification proposal against the identified relevant objectives of the UNC. We consider this modification proposal will better facilitate UNC objectives (a) and (f) and has a neutral impact on the other relevant objectives.

### ***(a) the efficient and economic operation of the pipe-line system.***

This modification proposes that changes to capacity or hourly flow requested under the UNC cannot exceed that allowed by the NExA, and where a NExA states maximum daily capacity allowed, the SOQ should be capped in line with this. This means the PMSOQ is not increased above the value of the NExA. The proposer said that where a NExA is linked to any capacity increases, the modification will help in preventing sites from booking system capacity at levels over those identified in the NExA and “protect the integrity of each transporter’s pipeline”. All four respondents to the industry consultation unanimously agreed that the proposal furthers relevant objective (a) by linking capacity increases between the UNC and the NExA, and preventing sites from booking capacity over the NExA level.

NExAs are becoming an increasingly common agreement for sites contracted to use gas transportation networks. Where the UNC and NExA are misaligned in respect of SOQ and SHQ values, this can create issues for a gas transporter managing users’ access to their pipeline

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<sup>11</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>12</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence:

<http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

<sup>13</sup> The Authority’s statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

system. This could lead to a misalignment in the information provided to the gas transporter, and there could also be consequences where a shipper books more capacity than is permitted under its NExA. It is ultimately the responsibility of shippers to ensure they book capacity correctly, but the existence of a misalignment between booking system capacity and the NExA values suggests that these processes could be more efficient. This modification seeks to address this misalignment between the UNC and NExAs, meaning gas transporters would have access to aligned contractual documents whilst operating their pipe-line systems. We agree that this facilitates relevant objective (a).

***(c) Efficient discharge of the licensee's obligations.***

All four respondents to the industry consultation suggested that UNC701 furthers relevant objective (c). As part of their licensed obligations, gas transporters must ensure their pipeline system is able to meet "peak aggregate daily demand for the conveyance of gas for supply to premises" which "is likely to be exceeded (whether on one or more days) only in 1 year out of 20 years".<sup>14</sup> One consultation respondent argued that UNC701 ties "industry commercial arrangements" to the "network management arrangements" (i.e. NExAs), ensuring that the gas transporter can adhere to its 1-in-20 operating conditions. Another respondent also suggested that preventing sites from booking capacity over the NExA level as part of this modification would be a "contributing factor" toward ensuring networks can meet their 1-in-20 demand.

Whilst we support the principle that processes should not hinder the 1-in-20 operating obligations on gas transporters, this modification does not significantly contribute to the discharge of this obligation. UNC701 helps ensure changes to daily capacity or hourly flow for supply points are tied to the values set out in a NExA. However, without this change gas transporters still have the information to make an effective assessment of 1-in-20 demand forecasts, particularly where NExAs already outline the ramp rate<sup>15</sup> or notice periods for an increase in maximum offtake rate. Tying together network management and industry commercial arrangements is not an essential measure to ensure gas transporters efficiently discharge their 1-in-20 obligations. Other comments made in the FMR did not refer to specific

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<sup>14</sup> This obligation can be found in condition 16: "Pipe-Line System Security Standards" of the Gas Transporter Licence, standard conditions. This Gas Transporter Licence can be accessed at the link here:

[https://epr.ofgem.gov.uk//Content/Documents/Gas\\_transporter\\_SLCs\\_consolidated%20-%20Current%20Version.pdf](https://epr.ofgem.gov.uk//Content/Documents/Gas_transporter_SLCs_consolidated%20-%20Current%20Version.pdf)

<sup>15</sup> The rate at which offtake of gas from the NTS can be increased by the user offtaking gas.

licence obligations, but said that UNC701 will further relevant objective (c) by facilitating the economic and efficient operation of the pipeline. We considered that in regard to relevant objective (a). Therefore, we conclude that modification UNC701 is neutral against relevant objective (c).

***(f) Promotion of efficiency in the implementation and administration of the Code.***

The FMR said that UNC701 would promote this objective by “giving visibility where a NExA exists thereby enhancing the requirements relating to NExAs under UNC TPD [Transportation Principal Document] Section J”. The FMR said that it was the lack of transparency related to the application of NExAs that UNC701 was seeking to address by enhancing the requirements and operational arrangements of NExAs within the UNC. All four industry respondents agreed that this modification would further relevant objective (f) by improving the information outlined in respect of NExAs within the UNC.

This modification will provide greater consistency between NExAs and the requirements outlined in the UNC, and by linking the NExA limits into the relevant sections of the TPD. It will also introduce visibility of the existence of a NExA within central systems to support the transparency of industry arrangements and will improve the information available where a NExA is in place. We agree UNC701 facilitates relevant objective (f).

We note some panel members had concerns regarding the potential cost of this change set out in the Rough Order of Magnitude (ROM) 5094.<sup>16</sup> We note that panel members, including both consumer representatives, voted for implementation based on these costs outlined in the FMR.<sup>17</sup>

**Implementation**

The FMR says that to deliver UNC701 effectively, implementation needs to be part of a “major” UK-LINK release. We recommend implementation takes place as soon as possible and as agreed between Xoserve and industry to ensure timely, efficient, and effective implementation.

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<sup>16</sup> A link to the full Rough Order of Magnitude (ROM) document can be found in the FMR.

<sup>17</sup> The UNC Panel minutes and voting record for 21 May 2020 can be viewed here:

<https://www.gasgovernance.co.uk/sites/default/files/ggf/2020-05/Panel%20Minutes%20and%20Voting%20Record%20258%2021%20May%202020%20v%201.0.pdf>

We note that there are errors in the legal text associated with UNC701. The errors appear to arise due to subsequent revisions to the UNC TPD. Specifically, amendments to Section G.5 of the UNC TPD are proposed by UNC701. Section G.5 is noted as “Not Used” in the current published version. We do not consider these errors to be material and they do not affect our decision. Appropriate amendments should however be made via a fast-track self-governance modification as soon as is reasonably possible.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority has decided that modification proposal *UNC 0701 'Aligning capacity booking under the UNC and arrangements set out in relevant NExAs'* should be made.

**David O'Neill**

**Head of Gas Markets and Systems**

Signed on behalf of the Authority and authorised for that purpose