

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

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Uniform Network Code 728/A/B/C/D (Urgent) - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS

On 3 July 2020, UNC Panel Members recommended that Uniform Network Code (“**UNC**”) modifications 728/A/B/C/D (Urgent) – ‘Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS’¹ should not be implemented. Modifications UNC728/A/B/C/D were then sent to us² for decision.

Impact assessment

Once we receive a modification for a decision, we may carry out an Impact Assessment (“**IA**”) to consider the impact of accepting or rejecting it. In deciding whether to carry out an IA, we undertake a ‘screening process’.³

We consider that an IA is required to help the Authority consider the wider issues associated with UNC728/A/B/C/D. According to National Grid Gas Transmission (“**NGGT**”) estimates,⁴ UNC728/A/B/C/D may result in between £80m and £180m of gas transmission charges being redistributed every year if one of these modifications is implemented.⁵ This is likely to have a significant impact on those involved in the shipping, transportation and supply of gas, and the general public in Great Britain. We have therefore decided to carry out an IA to explore the impacts arising from the above modifications.

Article 32 of the Tariff Network Code

Articles 29 and 32 of the Tariff Network Code (“**TAR NC**”) together require publication of the “reserve prices” applicable to standard capacity products until at least the end of the gas year, at least thirty days before the annual yearly capacity auction. A key principle of TAR NC is to increase the transparency of transmission tariff structures and procedures towards setting them. Therefore, TAR NC sets out specific requirements for publishing the information related to the derivation of different transmission and non-transmission tariffs (Chapter VIII of TAR NC).⁶ On 5 June 2020, NGGT published reserve prices ahead of the annual yearly auctions to be held in July.⁷

¹ <https://www.gasgovernance.co.uk/0728>

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 <https://www.ofgem.gov.uk/publications-and-updates/impact-assessment-guidance>

⁴ <https://www.nationalgrid.com/uk/gas-transmission/document/131766/download>

⁵ We note that the UNC728/A/B/C/D modifications also contain estimates regarding the socialisation arising from the proposals.

⁶ Recital 2 of Preamble to TAR NC.

⁷ <https://www.gasgovernance.co.uk/ntscharges/2020>

Each of the modifications proposes using the revenue reconciliation process to introduce a discount to reserve prices in gas year 2020/21. Our view is that to use the revenue reconciliation process in such way for the gas year 2020/21 would be contrary to Articles 29 and 32 TAR NC. These provisions also require that if any of the UNC728/A/B/C/D modifications are to be implemented, a decision to approve one of them will need to be made to allow the 30-day advance publication of the new tariffs before the 2021 annual yearly capacity auction for implementation from October 2021.

We note that the implementation date, if any, will be part of any decision that we make on UNC728/A/B/C/D.

Next steps

We are conducting an IA on these modifications and when we have reached a decision on these modifications based on the IA we will consult on that decision. We will seek to complete our IA and make a decision as soon as possible, to ensure industry can have as much certainty as possible.

For the avoidance of doubt, in deciding to carry out an IA we have made no assessment of the merits of the proposals and nothing in this letter in any way fetters the discretion of the Authority in respect of UNC728/A/B/C/D.

Cathryn Scott
Interim Executive Director

Signed on behalf of the Authority and authorised for that purpose