

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

Date: 9 May 2018

### **UNC0636 Updating the parameters for the NTS Optional Commodity Charge – request for urgency (UNC636)**

On 9 April 2018 the Joint Office received a request on behalf of Vermilion Energy Ireland Limited (the Proposer) for a change in modification status to 'urgent' for UNC636 'Updating the parameters for the NTS Optional Commodity Charge' (UNC636). Following consideration of the request that UNC636 now follows urgent modification procedures, we have decided not to grant that request.<sup>1</sup>

The remainder of this letter outlines the background to the request and provides further detail on our decision not to grant urgency.

#### **Background**

In October 2017 Vermilion Energy Ireland Ltd raised UNC0636.<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.

The Proposer has set out that UNC636 was raised to consider an update to the parameters of the Optional Commodity Charge (OCC) to address what the Proposer considers to be an issue of cross subsidy (the proposer 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 are able to (National Transmission System direct connects including interconnectors). The Proposer notes that the current charges have not been updated for 20 years and are no longer representative of the costs of building by-pass pipelines to the NTS.

The Proposer has also noted that National Grid is planning to address this cross-subsidy from October 2019 as part of UNC Modification Proposal 0621 (UNC621), but has concerns that UNC621 will not address the on-going cross subsidy in the interim. Therefore the expectation now is that, at most, UNC636 would be implemented in October 2018 for one year.

Subsequently, alternate modification proposals have been raised. These were considered by the Panel who assessed them (with one exception) to be valid alternatives. These were therefore sent to the workgroup for development as part of the industry process to assess

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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>

modification proposals.<sup>3</sup> The initial workgroup report was considered by the Panel at its meeting on 15 March 2018 and sent back to the workgroup for a further month. The workgroup report is now scheduled to be considered at an extraordinary Panel meeting on 23 May.

In its request to change the status of UNC636 to urgent, the Proposer states that there has been almost six months of development work to consider this proposal (and its alternatives) and that the original timeline has been extended to incorporate consideration of the alternatives. The Proposer considers that this is an issue that needs a timely decision as all have a proposed October 2018 implementation date.

### **Our decision on urgency**

We have considered the Proposer's justification for urgency in respect of the modification proposal. We have assessed the request against the urgency criteria set out in Ofgem's published guidance.<sup>4</sup>

In general, we currently consider that an urgent modification should be linked to an imminent issue or a current issue, that, if not urgently addressed, may cause:

- a significant commercial impact on parties, consumers or other stakeholder(s); or
  - a significant impact on the safety and security of the electricity and/or gas systems;
- or
- a party to be in breach of any relevant legal requirements.

In considering whether to grant UNC636 urgent status, we have noted the Proposer's view on the potential commercial impact. However, we do not consider that this potential impact has changed since the proposal was raised in October 2017.

We would note that the timetable to be followed by any modification proposal (whether granted urgency or not) needs to ensure, as far as possible, that there is sufficient opportunity for robust analysis to be undertaken (including in respect of any alternatives that the Panel has requested the workgroup to consider). Importantly, this analysis needs to assess whether the proposal(s) facilitate(s) the relevant code objectives better, in order that the Panel can make a robust recommendation to us.

An important step in the process is to allow sufficient opportunity for industry to consider and submit its views in respect of the modification proposals. Therefore, the workgroup report needs to ensure that there is sufficient information provided for the wider industry to engage at the industry consultation stage, particularly given the potential significant commercial impact highlighted by some members of the workgroup in respect of UNC636. We are also aware of industry consideration of other changes (for example UNC 621) which may have an effect on the issues covered by this modification and see benefit in these issues being considered in the round.

Given the above, we do not consider that the current status of UNC636 is such that it is appropriate to expedite the process by the granting of urgency in this case.

We are aware of concerns raised by some workgroup members and wider industry participants that the standard modification process is not working effectively, particularly in relation to the use of alternatives. We do not consider that the urgency process is an appropriate means to address these concerns and do not consider that this is grounds to merit a change in the status of this modification at this late stage in the modification process. We expect the Panel and industry participants to work together to ensure the timely completion of the UNC modification process. If there are concerns about the UNC

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<sup>3</sup> At the Panel meeting on 15 March, the Panel considered 636C. A majority of Panel Members voted against it being a true alternative. It was therefore renumbered to UNC653.

<sup>4</sup> Ofgem Guidance on Code Modification Urgency Criteria (<https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>)

modification process, we expect the relevant parties to review whether improvements to the current process may be required.

For the avoidance of doubt, in not granting the request for urgency, we have made no assessment of the merits of the proposals and nothing in this letter in any way fetters our discretion in respect of these proposals.

If you have any queries or comments in relation to the issues raised in this letter, please contact us by email at [charlotte.friel@ofgem.gov.uk](mailto:charlotte.friel@ofgem.gov.uk) in the first instance.

Yours faithfully,

A handwritten signature in blue ink that reads "Andy Burgess". The signature is written in a cursive style with a period at the end.

**Andrew Burgess**  
**Duly authorised on behalf of the Authority**