

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

10 April 2019

UNC686 Removal of the NTS Optional Commodity Rate with adequate notice: Urgency Application

On 2 April 2019, the Joint Office of Gas Transporters (“**JO**”) received a request from Vermilion Energy Ireland Limited (“**Vermillion**”, the Proposer) that Uniform Network Code (“**UNC**”) modification UNC686 ‘Removal of the NTS Optional Commodity Rate with adequate notice’¹ should be treated as ‘urgent’ and proceed under a timetable approved by Ofgem.² After considering the justification provided by the Proposer for this request, we have decided not to grant urgent status for UNC686. We set out our reasons below.

Background

The Optional Commodity Charge (“**OCC**”, also referred to as “Short Haul”) was introduced in 1998 with the intention of providing an alternative option for shippers seeking short distance transportation of gas. The introduction of the OCC aimed to address the risk of inefficient bypass of the National Transmission System (“**NTS**”). It can be paid by NTS users as an alternative to standard Transmission Owner and System Operator commodity charges (“**Standard Commodity Charges**”).

In October 2017, Vermilion raised UNC636, proposing an update to the parameters of the OCC formula.³ The industry also raised four alternative proposals (UNC636A/B/C/D). On 31 July 2018, we rejected UNC636 and its alternatives.⁴

In October 2018, following a request by National Grid Gas (“**NGG**”), a Workgroup was established to conduct a review and assessment of the OCC (UNC670R).⁵ NGG stated that Short Haul should be considered as an integral part of an overall methodology and not in isolation. NGG also stated that returning to the principles of the product will help to facilitate an industry consensus before a solution is raised; thereby helping to reduce the risk of multiple alternatives, saving time and helping to progress with the implementation of any modification. We have encouraged this Workgroup to carry out a comprehensive review of Short Haul in line with NGG’s request and in particular to identify an appropriate way to assess if there is a genuine risk of bypass of the NTS.

¹ <http://www.gasgovernance.co.uk/0686>

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

⁴ Decision to reject UNC636/A/B/C/D <https://www.ofgem.gov.uk/publications-and-updates/unc636-b-c-d-updating-parameters-national-transmission-system>

⁵ <http://www.gasgovernance.co.uk/0670>

On 2 April 2019, the Proposer raised UNC686 and requested that it should be treated as urgent and proceed under a timetable approved by the Authority. This modification aims to remove the OCC so as to ensure that Short Haul is no longer available from 1 October 2019. The Proposer states that the removal of the OCC should be done in a manner that gives adequate notice to stakeholders.

Our decision on urgency

We have considered the Proposer's justification for urgency in respect of UNC686. We have assessed the request against the urgency criteria set out in Ofgem's published guidance.⁶ In general, we consider that an urgent modification should be linked to an imminent issue⁷ 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.

The Proposer believes that the urgency request meets criterion (iii). Specifically, the Proposer argues that UNC686 is linked to an imminent issue that, if not urgently addressed, may cause NGG to be in breach of Commission Regulation 2017/460 ("**TAR NC**").

TAR NC establishes a network code setting out the rules on harmonised transmission tariff structures for gas. It is expected to be implemented in GB via changes to the charging methodology in the UNC. Chapters II, III and IV of TAR NC, which relate to Reference Price Methodology, Reserve Prices and Reconciliation of Revenue respectively, shall apply as from 31 May 2019.⁸ We have repeatedly said that we expect industry to ensure GB is compliant with the requirements of the TAR NC as soon as possible. On 25 January 2019, we decided to grant urgent status for UNC678 'Amendments to Gas Transmission Charging Regime', which aims to amend the Gas Transmission Charging regime in order to better meet the relevant charging objectives for Gas Transmission Transportation charges and to deliver compliance with TAR NC.⁹

We consider that the urgency request is not justified based on criterion (iii). TAR NC necessitates a number of changes to the GB gas charging arrangements, including but not limited to: the introduction of floating payable prices; the cessation of commodity charges, and; the setting of discounts for storage.¹⁰ UNC686, by removing the OCC, would not ensure that the prevailing NTS Charging Methodology is compliant with TAR NC. The Proposer acknowledges that UNC686 aims to offer the possibility of "a more compliant methodology". Based on our published guidance, we would only approve an urgency request to avoid the risk of a party being in breach of relevant legal requirements. As the Proposer itself recognises, UNC686 will not address this risk. Therefore, we consider that criterion (iii) is not satisfied. We note that urgency criteria (i) and (ii) are not relevant in the request under examination.

For the avoidance of doubt, in rejecting 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 UNC686.

David O'Neill

Head of Gas Systems, Energy System Transition

Signed on behalf of the Authority and authorised for that purpose

⁶ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

⁷ The imminent issue may be date related.

⁸ Article 38(3) of TAR NC.

⁹ <http://www.gasgovernance.co.uk/0678>

¹⁰ See our Open letter on TAR NC (21 February 2017) <https://www.ofgem.gov.uk/publications-and-updates/open-letter-european-union-network-code-harmonised-transmission-tariff-structures-gas-tar-nc>