

Modification proposal:	Uniform Network Code (UNC) 686: UNC686 – ‘Removal of the NTS Optional Commodity Rate with adequate notice’ (UNC686)		
Decision:	The Authority ¹ has decided to reject this modification ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	18 June 2021	Implementation date:	n/a

Background

The Optional Commodity Charge (“OCC”) was introduced in 1998 with the intention of providing an option for shippers seeking short distance transportation of gas. The OCC aimed to address the risk of inefficient bypass of the National Transmission System (“NTS”). On 28 May 2020, we directed modification UNC678A be implemented on 1 October 2020.³ As part of these changes, the OCC was removed from the NTS charging methodology.

The modification proposal

Vermilion Energy Ireland Limited (“the Proposer”) raised UNC686 ` proposing to remove the OCC. A request for urgent status was made on 2 April 2019 which we rejected.⁴

In the Proposer’s view, at the time of submitting the proposal, *“users of the [OCC] received the same service as non-Users for significantly lower charges. This resulted in a cross-subsidy estimated by the proposer⁵ at £146m per annum by sites unable to benefit from the [OCC] to*

¹ References to the “Authority”, “Ofgem”, “we”, “us” 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.

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

³ Uniform Network Code (UNC) 678/A/B/C/D/E/F/G/H/I/J (Urgent) - Amendments to Gas Transmission Charging Regime (28 May 2020), https://www.ofgem.gov.uk/system/files/docs/2020/05/unc678_-_decision_0.pdf

⁴ Uniform Network Code (UNC): 686 Removal of the NTS Optional Commodity Rate with adequate notice: Urgency Application (10 April 2019), <https://www.ofgem.gov.uk/publications-and-updates/uniform-network-code-unc-686-removal-nts-optional-commodity-rate-adequate-notice-urgency-application>

⁵ National Grid: NTSCMF 26 September 2017 https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2017-09/2017_09_26%20NTSCMF%20-%20Gas%20Charging%20Review.pdf

those opting for the OCC.” The Proposer considered the cross-subsidy was mainly to the disadvantage of domestic and larger industrial and commercial customers within the Distribution Networks and considered the OCC to be discriminatory and anti-competitive.

UNC Panel⁶ recommendation

At the UNC Panel meeting on 20 June 2019, 2 Panel Members out of a possible 14 voted in favour of recommending modification UNC686. The Panel therefore did not recommend its approval.

Impact assessment

On 29 July 2019, we published our decision to carry out an Impact Assessment (“IA”).⁷ However, we no longer consider an IA to be appropriate for this modification and as such we have decided not to carry out an IA. In July 2019, we said the removal of OCC may have a significant impact on National Grid Gas and NTS users and therefore UNC686 would constitute an “important” proposal within the meaning of Section 5A of the Utilities Act 2000. Since the implementation of UNC678A on 1 October 2020⁸, the OCC has not existed within the UNC and therefore UNC686 would not have no impact on National Grid Gas or NTS users. As such, UNC686 no longer constitutes an “important” proposal within the meaning of Section 5A.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 June 2019. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR⁹. We have concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant methodology objectives of the UNC.¹⁰

⁶ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁷ <https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2019-07/Ofgem%20decision%20letter%20-%20impact%20assessment%2029%20July%202019.pdf>

⁸ UNC678 Decision: https://www.ofgem.gov.uk/system/files/docs/2020/05/unc678_-_decision_0.pdf; UNC678 - Final Impact Assessment: https://www.ofgem.gov.uk/system/files/docs/2020/05/unc678_-_impact_assessment_1.pdf

⁹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

¹⁰ 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

Reasons for our decision

We consider this modification proposal has a neutral impact on all relevant methodology objectives of the UNC. UNC686 seeks to remove the OCC, but the OCC is no longer part of the UNC as it was removed as part of the implementation of UNC678A. Therefore, the proposal will not better facilitate the achievement of the relevant objectives.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority has decided that modification proposal *UNC686 – 'Removal of the NTS Optional Commodity Rate with adequate notice'* should not be made.

David O'Neill

Head of Gas Markets and Systems

Signed on behalf of the Authority and authorised for that purpose