

Modification proposal:	Uniform Network Code (UNC) 847: Introduction of a Minimum General Non-Transmission Services Charge (UNC 847)		
Decision:	The Authority ¹ directs this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	22 November 2023	Implementation date:	To be confirmed by the code administrator

Background

National Gas Transmission (NGT) recover the majority of allowed System Operator revenue through the General Non-Transmission Services (GNTS) charge, a commodity-based charge levied on a User's National Transmission System (NTS) flows. Under certain circumstances, there is a possibility the current methodology may return a negative GNTS charge. This would result in NGT paying Users to flow gas on to the NTS and potentially drive unpredictable User behaviour with unintended consequences for the transportation business.

NGT note recent developments have increased the potential for a negative GNTS charge to materialise. The cost of procuring shrinkage gas has resulted in volatile Allowed Revenue³ across Formula Years⁴. This has resulted in large swings in Gas Year target revenues which feed into GNTS charges. NGT have projected that a negative GNTS charge could materialise in Gas Year 2024/25 if no remedial action is taken.⁵

¹ 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.

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

³ See Special Condition 2.3 System operator revenue restriction (SOART).

⁴ The Formula Year runs for a 12-month period beginning on 1 April to 31 March in the following calendar year.

⁵ UNC847 Final Modification Report (21 September 2023), page 9, available: www.gasgovernance.co.uk/0847

The modification proposal

On 5 May 2023, National Gas Transmission (“the Proposer”) raised UNC847.

In the Final Modification Report (FMR), the Proposer notes this modification is part of a ‘larger strategy’ to reduce GNTS charge volatility and to eliminate the possibility of negative charges.⁶ The stated aim of UNC847 is to prohibit a negative GNTS charge materialising by introducing a minimum price of 0.0001p/kWh.

Any revenue over-recovery attributable to this minimum charge would be returned to Users through reduced charges in the following Gas Year.

The proposer argues this modification will better facilitate the Transporters’ Charging Methodology Relevant Objective (CMRO) (b) and will have no impact on the other objectives. The proposer argues this modification updates the charging methodology to reflect developments within the transportation business.

UNC Panel⁷ recommendation

At the meeting on 21 September 2023, the UNC Panel considered that UNC847 would better facilitate CMRO (b) and (c). Panel considered the modification would update the charging methodology to reflect developments within the transportation business as well as facilitating effective competition between gas shippers. Panel unanimously recommended its implementation.

Our decision

We have considered the issues raised by the modification proposal and the FMR dated 21 September 2023. We have considered and taken into account the response to the industry consultation on the modification proposal which is attached to the FMR⁸. We have concluded

⁶ UNC847 FMR, p.3.

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

that implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC.⁹

Reasons for our decision

We consider this modification proposal will better facilitate CMRO (b) and (c) and will have no impact on the other objectives.

(b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business.

The proposal would have a positive impact on CMRO (b).

The Proposer argues a negative GNTS charge was historically regarded as 'not something that was deemed to be possible.'¹⁰ However, the Proposer acknowledges there is now 'material potential' for negative charges to materialise due to the 'unprecedented changes' in the wholesale gas markets.¹¹

Panel members agreed with the Proposer that the current charging methodology 'will continue to present a potential for negative charges' without intervention.¹² Panel members also agreed with the Proposer that the potential for negative charges is driven by the 'unprecedented levels of price volatility' in wholesale gas markets.¹³ They concluded there is 'no harm in having a backstop arrangement' to avoid negative charges and that this would ensure the transmission charging system would continue to 'work the way it is supposed to.'¹⁴

We agree with the Proposer and the Panel Members that the modification would have a positive impact on CMRO (b). We regard the modification as a pragmatic response to the impact of price volatility on the transportation business. Negative GNTS charges would create a perverse price signal for Users and potentially incentivise behavioural changes that could

⁹As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions

¹⁰ UNC847 FMR, p.11.

¹¹ UNC847 FMR, p.9.

¹² UNC847 FMR, p.14.

¹³ UNC847 FMR, p.14.

¹⁴ UNC847 FMR, p.13.

give rise to negative unintended consequences. The potential consequences of a negative GNTS charge therefore justifies intervention and the introduction of a backstop in the charging methodology.

We note that a minimum reserve price already exists for Entry and Exit capacity charges and that this modification therefore aligns GNTS charges with the methodology for Transmission Services charges.

c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers;

The proposal would have a positive impact on CMRO (c).

Panel members considered the modification would help to facilitate effective competition between gas shippers and gas suppliers by providing certainty that negative GNTS charges will not materialise under any circumstances.

We agree with Panel members that the modification would have a positive impact on CMRO (c). Negative GNTS charges would make it more difficult for Users to accurately assess their risks and forecast costs. Negative GNTS charges would also create a perverse incentive to flow gas on to the NTS and therefore could have a negative impact on effective competition between shippers. We therefore consider that this modification will improve effective competition by ensuring that a negative GNTS charge will not materialise.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC847: '*Introduction of a Minimum General Non-Transmission Services Charge*' be made.

Alsarif Satti

Acting Head of Gas Charging and Access

Signed on behalf of the Authority and authorised for that purpose