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UNC729 Applying a discount to the Revenue Recovery Charge at Storage Points: Urgency Application

On 24 June 2020, the Joint Office of Gas Transporters (“**JO**”) received a request from Storengy UK Ltd (“**Storengy**”, the Proposer) that Uniform Network Code (“**UNC**”) modification **UNC729** ‘Applying a discount to the Revenue Recovery Charge at Storage Points’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 UNC729. We set out our reasons below.

Background

On 17 January 2019, National Grid Gas Transmission (“**NGGT**”) raised **UNC678**³ stating that it seeks to introduce gas transmission charging arrangements that produce stable and predictable transmission charges and ensure compliance with Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas (“**TAR NC**”). Workgroup members raised ten alternative proposals (UNC678A/B/C/D/E/F/G/H/I/J). On 28 May 2020, we approved modification proposal UNC678A: ‘Amendments to Gas Transmission Charging Regime (Postage Stamp)’ and decided that it should be implemented on 1 October 2020.⁴

On 24 June 2020, the Proposer raised UNC729 and requested that it should be treated as urgent and proceed under a timetable approved by the Authority. This modification proposes changes to the charging methodology to include a discount to the Revenue Recovery Charges (“**RRC**”) for entry and exit capacity holdings at storage points equivalent to the discount applied to the reserve prices in respect of firm and interruptible/off-peak capacity.

Our decision

We have considered the Proposer’s justification for urgency in respect of UNC729. We have assessed the request against the urgency criteria set out in Ofgem’s published guidance.⁵

¹ <http://www.gasgovernance.co.uk/0729>

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.gasgovernance.co.uk/0678>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghijkl>

⁵ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

The guidance sets out the factors the Authority will consider in reaching a decision on urgency in the context of industry code modification proposals – it is intended to be illustrative and not exhaustive. Each request for urgency will be considered on its merits on a case by case basis by reference to our guidance, and in circumstances where we depart from it, we will explain the reasons why. Ordinarily we take the view that an urgent modification should be linked to an imminent issue⁶ or a current issue that if not urgently addressed may cause:

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

In its request for urgency, the Proposer states that: "Urgent status is sought on the basis that the need to introduce the mechanism advocated by this Modification is driven by an imminent date related issue, this being the introduction of the new NTS Charging Methodology from 01 October 2020. There is now a short period of time until the 'go-live' date for the revised Methodology (01 October 2020) which is not sufficient enough to deliver a timely decision in respect of this Modification were it to follow standard governance procedures. If this Modification is not considered on an urgent basis, the Proposer contends that:

- Compliance with EU Tariff Code (Art 9) will not be achieved; and
- It could result in significant commercial impacts for storage owners and Users, and ultimately have an adverse impact on security of price and supply for the GB market".

Article 9 of TAR NC states that "[a] discount of at least 50 % shall be applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities...".

The Proposer states that "As the EU Tariff Code and the revised Methodology require that discounts should be applied to storage capacity [...] it is consistent to apply the same level of discount to other additional transmission capacity-based charges, such as the RRC. The Proposer contends that the revised Methodology is inconsistent with Article 9, as the RRC is a capacity-based transmission tariff".

We note that the first grounds for urgency invoked by the Proposer would require us to make an assessment on whether UNC729 better facilitates compliance with TAR NC relative to the baseline (as introduced by UNC678A). UNC678A/B/C/D/E/F/G/H/I/J were raised in order to ensure compliance with TAR NC. When we decided to implement UNC678A we said that "...UNC678 and UNC678A are compliant with the requirements of TAR NC and the Gas Regulation...". The Proposer states that if UNC729 is not considered on an urgent basis, compliance with TAR NC will not be achieved. However, as we have already opined on the compliance of UNC678A and concluded that UNC678A is compliant with the requirements of TAR NC, we would need to undertake an assessment on the substance of the modification. This falls outside the scope of this letter. We also note that none of the UNC678 modifications envisaged a discount to RRCs and industry has not considered such a solution to date. Therefore, the issues raised by this proposal can be considered "novel", hence UNC729 should be subject to a timetable that would allow the proposed solution to be sufficiently developed and consulted on. For these reasons, we cannot grant urgency to UNC729 on the basis of criterion (iii).

Furthermore, we consider that the urgency request is not justified based on criterion (i) of Ofgem's guidance. Urgency constitutes a deviation from standard governance procedures. We note that charging arrangements by their very nature have the potential to cause a commercial impact on UNC parties. For urgency to be justified, it is not sufficient for proposers simply to invoke commercial impact but it must be demonstrated that the commercial impact is "significant".

⁶ The imminent issue may be date related.

For these reasons, we consider that the request for urgency is not justified based on criteria (i) and (iii).

We encourage industry to give due consideration to the compliance of this modification, including any proposed implementation date, with the relevant legislation.

For the avoidance of doubt, in reaching our decision on urgency we have made no assessment of the substance of the proposed modification, including the recommended implementation date, and nothing in this letter in any way fetters the discretion of the Authority in respect of UNC729 or any other modification proposal.

David O’Neill,
Head of Gas Systems, Energy System Transition
Signed on behalf of the Authority and authorised for that purpose