



Making a positive difference
for energy consumers

UNC Panel Chair, the Joint Office,
relevant Gas Transporters, Gas
Shippers, and other interested
parties

Email: industrycodes@ofgem.gov.uk

Date: 19 October 2021

Dear Wanda and colleagues,

UNC modification proposal UNC788: 'Minimising the market impacts of 'Supplier Undertaking' operation' – decision on urgency

We¹ have received a request from National Grid NTS (The Proposer) that Uniform Network Code (UNC) modification proposal UNC0788: Minimising the market impacts of 'Supplier Undertaking' operation² (hereafter "UNC0788") should be given urgent status and follow expedited modification procedures. This letter confirms that we have agreed to that request, and sets out the timetable under which the modification will proceed.

Background

The unprecedented increase in global gas prices is putting financial pressure on suppliers and gas shippers. There are existing industry arrangements and processes to handle a scenario where a shipper ceases to trade. These arrangements are principally managed by Xoserve, National Grid NTS and Gas Distribution Networks (GDNs).

The current arrangements provide for suppliers that cease to have arrangements with a shipper for any of their registered meter points to post security and make payments for energy and transportation charges under a Deed of Undertaking signed with the GDNs and

¹ 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.

² Modification proposals are available at <https://www.gasgovernance.co.uk/livemods>

National Grid NTS. The energy charges are calculated as if the shipper was still in place but did not make any arrangements to deliver gas into the system. This means the supplier effectively pays the imbalance price for the whole amount of gas delivered to and consumed by their customers, until they make arrangements for a shipper to be registered to the relevant supply points. National Grid NTS retains its role in ensuring the overall balance of the system.

The modification proposal

UNC0788 proposes to allow suppliers with 'shipper-less' sites to deliver gas into the system for those sites using existing relationships with other shippers. A supplier may have relationships with multiple shippers if, for example, they are in the process of migrating their shipping arrangements or have been appointed as Supplier of Last Resort (SoLR) for a portfolio that has existing arrangements with a shipper that has continued to trade following the exit of the failed supplier.

In the case where the registered shipper ceases to trade and is terminated³ from the UNC, depending on number of associated meter points, changing the registered shipper from one shipper to another can take time. Only once these meter points are transferred to an operational shipper and the existing shipper becomes the Registered User, can the enduring shipper take on the associated rights and obligations (including the ability to trade). It is proposed that during the transition period, the destination shipper should be allowed to deliver gas for the portion of the terminated portfolio that relates to the relevant supplier's customers.

UNC Modification Panel View

Given the circumstances we have not on this occasion sought a formal UNC Panel view on the proposals, as allowed for under paragraph 10.1.1(b) of the Modification Rules.⁴

Authority Decision

We have considered the proposers' justification for urgency for the modification proposal. We have assessed the request against the urgency criteria set out in Ofgem's published guidance.⁵ In general, we consider that an urgent modification should be linked to an imminent issue⁶ or a current issue that, if not urgently addressed, may cause a:

- i. significant commercial impact on parties, consumers or other stakeholder(s); or

³ In accordance with the UNC

⁴ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

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

⁶ The imminent issue may be date related.

- 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 considers that there is currently a heightened risk of shippers ceasing to trade, and some of those shippers may ship gas for multiple suppliers. While there are existing arrangements to ensure the supplier(s) make payment for energy consumed, they are unable to make arrangements for gas to be delivered into the system for the affected meter points. This would generate an overall supply shortfall, assuming all other shippers were balanced.

The Proposer considers that if National Grid NTS, acting as the residual balancer were to procure gas on the On-the-day Commodity Market (OCM) to cover the shortfall, this could distort balancing signals and wholesale market more generally. The proposer highlights that shippers have a wide range of options to procure gas without risking market distortion and at the most efficient price. As such, the Proposer considers enabling shippers to deliver gas should lead to that gas being delivered at lower price to the ultimate benefit of consumers.

While we have not made a judgement on the merits of this proposal specifically, we consider that it is appropriate to urgently consider options to minimise the impact of the current wholesale market position on consumers. We are satisfied that the progression of this modification proposal and the need for an appropriate response to the current wholesale position and perceived heightened risk of shipper exit is *"a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers, or other stakeholders(s)"*, and have therefore agreed that the modification proposal should follow the urgent timetable as set out below.

Process	Date
Ofgem Decision on Urgency	19 October 2021
Consultation Commences	19 October 2021
Consultation Close-out for representations	20 October 2021
Final Modification Report available for Panel	21 October 2021
Modification Panel recommendation	22 October 2021
Ofgem Decision expected by	25 October 2021

We have considered the timetable presented by the Proposer. We recognise that if a shipper were to be terminated, the consequences could have significant and imminent commercial impacts on suppliers. We consider this modification creates an additional option for shippers and suppliers, rather than removing an option or compelling a single approach.

For that reason we are deciding to grant urgency to this timetable, and we urge Proposer to use the consultation time effectively including by making itself available to affected parties to explore this option at pace. However, as we are considering a range of complex issues and proposals aimed at addressing the impacts of the current wholesale market position it should be noted that the timetable with respect to our decision is subject to change.

Yours sincerely,

Eleanor Warburton
Deputy Director - ESO and Gas Systems