
Uniform Network Code (UNC) 0854: Revision of Virtual Last Resort User and Contingent Procurement of supplier Demand Event Triggers (UNC0854)

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:	10 May 2024
Implementation date:	To be confirmed by the code administrator

Background

When a shipper is issued a Termination Notice³ from the Uniform Network Code (“UNC”), most likely due to User Default,⁴ and a supplier of affected Supply Meter Points⁵ is operating under a Deed of Undertaking⁶, two mechanisms are available⁷ for the procurement of gas to meet the demand of those affected Supply Meter Points until a new shipper is registered.⁸ These mechanisms are the Virtual Last Resort User (“VLRU”) and the Contingent Procurement of Supplier Demand (“CPSD”).

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 The Transporter may (subject to conditions) issue a Termination Notice to a shipper, as set out in Consolidated Transportation Principal Document Section V 4.3 <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2024-03/22%20TPD%20Section%20V%20-%20General.pdf>

⁴ Causes for User Default include shipper unpaid dues, a shipper’s Value at Risk exceeding 100% of their Code Credit Limit, or a shipper being in material breach of the UNC.

⁵ Supply Meter Point is an Individual System Exit Point at which gas may (in accordance with the Code) be offtaken from the Total System for the purposes of supply directly to particular premises as defined in Transportation Principal Document Section A 4.1 <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2023-03/3%20TPD%20Section%20A%20-%20System%20Classification.pdf>

⁶ All Gas suppliers must give a deed of undertaking to their relevant gas transporter pursuant to Gas Supply Standard Licence Condition 18.3. The deed’s terms state that if the arrangements between the supplier’s shipper and the transporter end, and no arrangements with another shipper are put in place, then the supplier will be responsible to the transporter for the charges that the shipper would otherwise have paid.

⁷ If required triggers are met.

⁸ When a shipper is terminated from the UNC, suppliers are required by Gas Supply Standard Licence Condition (“SLC”) 18.4 to take all reasonable steps to ensure that they have arrangements with an alternative gas shipper in place to deliver gas to affected Supply Meter Points within 25 working days. Consolidated Standard Licence Conditions are available on <https://www.ofgem.gov.uk/industry-licensing/licences-and-licence-conditions>

The VLRU mechanism⁹ allows the supplier at affected Supply Meter Points to utilise an alternative shipper, with which they have an existing User relationship, to provide gas to these premises. This mechanism is available up until the affected Supply Meter Points are formally transferred to a new shipper.

The CPSD mechanism¹⁰ allows National Gas Transmission (“NGT”, “the Proposer”) to procure gas at the National Balancing Point (“NBP”) for affected domestic or non-domestic consumer Supply Meter Points that no longer have a registered shipper, via the On the Day Commodity Market (“OCM”), Over-the-Counter trading or other gas exchanges to meet forecast demand at these premises, outside of NGT’s existing balancing role.

Each of these mechanisms are in place to protect consumers and the market in the event of a shipper being terminated from the UNC by enabling NGT and suppliers to procure gas via these different means in a more economical manner as opposed to NGT purchasing gas on the OCM in its residual balancing role.¹¹

If a gas shipper were to be subject to sanctions by the United Kingdom (“UK”) Government, its ability to deliver gas to registered Supply Meter Points in the Great Britain (“GB”) market would be inhibited. The application of sanctions would not, however, constitute a User Default under the UNC. The shipper would not be terminated from the UNC, its registration to Supply Meter Points would not be terminated, and the terms of a binding Undertaking (“Supplier Undertaking”) would not be triggered. The VLRU and CPSD mechanisms could therefore not be activated, so consumers would not be protected through these mechanisms. For as long as a sanctioned shipper remained an active User under the UNC but is not able to flow gas to registered Supply Meter Points, NGT would procure gas via the OCM to balance the market as necessary, in its residual balancer role. Only if and when affected Supply Meter Points are transferred to another operational shipper in the industry systems, would the new shipper take on the associated rights and obligations (including the ability to trade).

⁹ Introduced by UNC0788 (Urgent) - Minimising the market impacts of ‘Supplier Undertaking’ operation <https://www.gasgovernance.co.uk/0788>

¹⁰ Introduced by UNC0791 (Urgent) - Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking <https://www.gasgovernance.co.uk/0791>

¹¹ The OCM is GB’s balancing market, where day-ahead and within-day trades occur. It is used to formulate the System Average Price and the System Marginal Prices. It is a short-term market and using it to procure large volumes of gas may inflate the System Marginal Price Buy (“SMPbuy price”), which in turn is more generally likely to increase costs for consumers. We therefore consider it may not to be the most economical solution for procuring gas.

NGT raised UNC0813: 'Revision of Virtual Last Resort User and Contingent Procurement of Supplier Demand Event Triggers (hereafter "UNC0813") which proposed to introduce into the UNC a process to allow the VLRU and CPSD mechanisms to be triggered when shippers become subject to sanctions by the UK Government. We rejected this modification on the basis that the Authority did not have the vires and/or expertise to conduct what the modification proposed, due to the inclusion of a Disapproval role for the Authority.¹²

The modification proposal

UNC0854 was raised by NGT on 04 August 2023 and seeks to amend the UNC Transportation Principal Document ("TPD"), principally Sections D (Operational Balancing and Trading Arrangements), E (Daily Quantities, Imbalance and Reconciliation), and G (Supply Point Registration). The modification proposes to establish the basis and process for NGT to issue a User Premises Termination Notice ("UPTN") to a shipper that is sanctioned by the UK Government (as set out in TPD Section G4.8.9).¹³ This would have the effect of discontinuing the shipper's registration at any Supply Meter Points while it remains a 'live' (i.e. not terminated) User. This would be a trigger for 'activating' the Supplier Undertaking and the application of the VLRU and CPSD mechanisms (as set out in TPD Section E10.1.1(a) and TPD Section D6.1.2(a)),¹⁴ currently triggered by a User Termination. The Proposer considers the proposed arrangements would provide greater flexibility to procure gas to meet the demand of affected Supply Meter Points on a more economic basis compared to the status quo. UNC0854 proposes the same changes as UNC0813 but omits the proposed Disapproval role for the Authority that was proposed in UNC0813.

UNC Panel¹⁵ recommendation

At the UNC Panel meeting on 21 March 2024, a majority of the UNC Panel considered that UNC0854 would better facilitate the UNC objectives and the Panel therefore recommended its

¹² <https://www.ofgem.gov.uk/publications/unc813-revision-virtual-last-resort-user-and-contingent-procurement-supplier-demand-event-triggers>

¹³ Legal text available from UNC https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-10/MODIFICATION%200854%20Legal%20Text_Final_National%20Gas.pdf

¹⁴ Consolidated Transportation Principal Document <https://www.gasgovernance.co.uk/TPD>

¹⁵ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

approval, with nine in favour out of a possible 14. The majority of Panel members considered UNC0854 better facilitated Relevant Objects (a), (c) and (d).

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (“FMR”) dated 22 March 2024. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR¹⁶. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;¹⁷ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁸

Reasons for our decision

We consider this modification proposal will better facilitate UNC Relevant Objectives (“RO”) (a), (c) and (d) and has a neutral impact on the other relevant objectives.

(a) the efficient and economic operation of the pipe-line system to which this licence relates

The Proposer and Panel consider that UNC0854 better facilitates RO (a), stating that it would introduce a more efficient and economic means of securing the delivery of additional supplies of gas to meet the demand from consumers in the event there are Supply Meter Points registered to a sanctioned shipper. Both the Proposer and Panel note that availability of the mechanisms if a shipper were sanctioned, would reduce the risk of system prices not being reflective of supply or demand fundamentals, which is expected to result in more efficient

¹⁶ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

¹⁷ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

¹⁸ The Authority’s statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

system operation. The two consultation responses reflected these views and agreed that the implementation of UNC0854 would better facilitate RO (a).

During Panel discussions, Panel members stated that UNC0854 would introduce a proportionate and appropriately targeted step to mitigate the increased imbalance risk that exists where a shipper is sanctioned by the UK government and the negative impacts this could have on NGT and other market participants. The Panel noted that implementation of UNC0854 would allow the continuation of economical balancing and transportation until a new shipper is registered at affected Supply Meter Points.

Views of the Proposer, Panel and consultation respondents are supported by analysis submitted by NGT and contained within the FMR, demonstrating the effect the Proposal could have on the maximum cashflow exposure of NGT's balancing neutrality account. Analysis submitted by the Proposer found that this maximum exposure would be significantly reduced if the modification were to be implemented and the VLRU and CPSD mechanism be available, compared to what would be the case under the status quo, therefore, demonstrating that the Proposal would better facilitate RO (a).

We have carefully considered the modification proposal, consultation responses, and views of the Panel. We agree that this modification would better facilitate RO (a) because it introduces arrangements for securing the delivery of supplies of gas at Supply Meter Points that are affected by a shipper being sanctioned that is expected to be more economical than the status quo. Under the status quo, if a shipper is sanctioned it will not be able to transport gas to meet the demand of any Supply Meter Points, and NGT may be required to procure a large volume of gas in the OCM in its residual balancing role. UNC0854 seeks to extend availability of the VLRU and CPSD mechanisms to instances where a shipper is subject to government sanctions. We agree with the Proposer, Panel and consultation respondents that this would mitigate risks of system imbalance and ensure efficient and economic operation of the pipeline system.

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

The Proposer considers the proposed changes to the UNC within this modification would better facilitate RO (c) by enabling other shipper Users to deliver additional gas to the system and/or enable NGT to purchase NBP gas for this purpose through additional means to the OCM. Panel members and consultation respondents agreed that this would better facilitate NGT's obligation to perform its functions to balance the National Transmission System ("NTS") in an efficient, economic and co-ordinated manner.

In the event of a UPTN being issued, we expect that extending the use of the CPSD mechanism would allow for the more economical securing of the delivery of supplies of gas, through a wider range of markets, to balance the demands from consumers at shipper-less premises. We expect that this would allow NGT to form a procurement strategy which they consider, based on market conditions, to be the most appropriate and economic, which in turn is expected to lead to lower market prices. We agree that the modification proposed would positively impact RO (c).

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

The Proposer is of the view that UNC0854 would have a positive impact on RO (d). It states that by enabling other shipper Users to deliver additional gas to the system and/or enabling NGT to transact for additional volumes to meet the demand of affected Supply Meter Points, the proposed changes are expected to reduce the cost of such gas procurement compared with the status quo and result in lower system prices, thereby mitigating the financial challenges being faced by market participants. Panel Members and consultation respondents agreed with this.

A workgroup participant considered that implementation of this modification risks a situation where NGT incorrectly identifies shippers as sanctioned by the UK government and issues a UPTN on that basis, causing commercial harm to the shipper. This could potentially negatively impact RO (d). During workgroup meetings, NGT set out its legal position and the process it will undertake to confirm whether a shipper has been sanctioned by the UK government. During discussions, Panel members noted the workgroup participants' concern and NGT's response. We observe this concern and that NGT has set out the process it would follow for determining the issuing of a UPTN within the FMR.

Having considered the views of the Proposer, Panel and consultation respondents, we consider that this modification would better facilitate RO (d). We consider that extending availability of the VLRU and CPSD mechanisms to where a UPTN is issued would allow for suppliers to take advantage of existing shipper relationships to secure gas and for NGT to procure gas via a wider range of tools and timescales than in its role as residual balancer, which would help maintain lower system prices than under the status quo. This would facilitate the continuation of competition and limit any contagion effect on other market participants. NGT will not profit from this role, so there is no incentive for market abuse.

Our principal objective and statutory duties

The Authority's principal objective is to protect the interests of existing and future consumers, including their interests in relation to security of supply and, as part of this, the promotion of efficiency on the part of licensees. This would include the economical procurement of gas through the VLRU and CPSD mechanisms for Supply Meter Points registered to a sanctioned shipper, which would be of benefit to consumers.

For these reasons, we consider that approving UNC0854 is consistent with our principal objective to protect the interest of GB consumers as it will support the continuation of supply to consumers without increasing the gas price in the market to a disproportionate level in the event of a shipper being sanctioned by the UK government.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC0854: *'Revision of Virtual Last Resort User and Contingent Procurement of Supplier Demand Event Triggers'* be made.

Helen Seaton

Head of Gas Security and Flexibility, ESMS

Signed on behalf of the Authority and authorised for that purpose