
Uniform Network Code (UNC) 0860: Clarify impact of exit capacity holdings on offtake rights (UNC0860)

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:	5 March 2025

Background

Section J of the Transportation Principal Document (TPD) within the Uniform Network Code (UNC) deals with the management of gas quality and measurement. It includes provisions for the accurate measurement and metering of gas at various points in the network and defines the responsibilities of Gas Transporters and Shippers in maintaining gas quality and adhering to measurement protocols.

The UNC modification proposal 0860 seeks to amend the TPD in relation to NTS Supply Points and NTS Connected System Exit Points, such that the obligation on National Gas Transmission (NGT) to make gas available for offtake (currently limited to the Exit Capacity held by the Shipper) is determined by the Network Exit Provisions.

It would also remove NGT's ability to reject an Offtake Profile Notice (OPN) where the notified volume exceeds the Exit Capacity held by the Shipper. Alternatively, this right would only exist where the notified volume exceeds the physical limits of the offtake, or where UNC TPD Section Q applies.

The modification proposal

On 9 October 2023, RWE Supply & Trading GmbH ("the Proposer") raised UNC modification 0860: 'Clarify impact of exit capacity holdings on offtake rights' ("UNC0860").

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.

The FMR notes that the UNC TPD Section J clauses specify that National Gas Transmission (NGT) is not "*obligated to make gas available*" to Users at Exit Points or Supply Points if they do not hold Registered Exit Capacity, and that the rate of offtake in an Offtake Profile Notice shall not exceed 1/24th of the User's Registered Exit Capacity.

The Proposer asserts that this implies that NGT is:

- able to exercise a discretion on the gas it delivers to Exit Points based on Users' Exit Capacity holdings;
- able to reject OPNs on the basis of a User's holdings;
- able to instruct, enforce or take action against direct connects (i.e. power generators and industrial Users) to reduce or discontinue offtake of gas before a Stage 2 Network Gas Supply Emergency (NGSE) if they do not hold the corresponding capacity (i.e. 1/24th).

The proposer states that this modification is needed as the current Postage Stamp regime (which is the current gas transmission pricing methodology where the cost of transporting gas is uniform across the entire network, regardless of the distance travelled) incentivises Shippers to buy capacity in the short term.

The Proposer asserts that Users are overbuying capacity in the long-term auctions over concerns that NGT could scale back the release of daily firm exit capacity and restrict access to the network in pre-NGSE stages. In summary, Users have an incentive to buy short-term capacity, but the same Users are also overbuying long-term capacity as they have concerns that NGT will restrict short-term capacity.

Overbuying capacity in long-term auctions mitigates the risk of not being able to offtake gas in the short term. The Proposer notes that in practice, overbuying capacity means that Users are paying more, and these costs are ultimately passed on to consumers through higher bills.

According to the Proposer and their supporters, the discretion for NGT to reduce or discontinue offtake of gas before a Stage 2 NGSE is at variance with the National Emergency Plan (NEP), which outlines the UK's procedures for managing emergencies in the gas and electricity sectors.

The Proposer's view is that the NEP only describes the scale back of off-peak gas in pre-NGSE stages and states that power generation demand reduction can only begin to occur from Stage 2 of an NGSE. The Proposer asserts that the UNC is not aligned with the NEP in this regard, and therefore, NGT should not have the right to restrict firm exit capacity or reject Offtake Profile Notices (OPNs) prior to notifying the National Energy System Operator (NESO) of an emergency to ensure coordination of the NEP.

An OPN is used to notify the Gas Transporter of the expected offtake of gas from the transmission system at specific offtake points. This helps in managing and balancing the gas supply and demand across the network. OPNs are typically submitted on a daily basis.

The Proposer asserts that this modification would amend UNC TPD Section J and Q to mitigate those issues set out above.

Should this modification be approved and implemented, the OPNs would not be restricted or affected by a User's NTS Exit (Flat) Capacity holding but instead be determined by the rate specified in the Network Exit Provisions and an OPN would contain a User's best estimate of their expected offtake.

The Proposer's view is that the rights and obligations of Transporters to "make gas available" would be clarified by adding text to TPD Section Q to clarify that the reduction or discontinuance of the offtake of gas at Exit Points may only be enforced in accordance with the provisions of that section of the UNC, or where the Permitted Rate of Offtake is exceeded and for the avoidance of doubt, is unaffected by whether a User holds the relevant Exit Capacity at NTS Supply Points or Connection System Entry Points (CSEPs).

UNC Panel³ recommendation

At the UNC Panel meeting on 19 September 2024, a majority of UNC Panel members, (seven out of a possible 13) considered that UNC0860 would better facilitate the UNC Relevant Objectives.

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report ("FMR") dated 19 September 2024. We have considered and taken into account the responses to the industry consultation on the modification proposal that are attached to the FMR and additional information that has been submitted to us in confidence. We have concluded that:

- implementation of the modification proposal would not better facilitate the achievement of the applicable UNC Relevant Objectives ("UNC ROs").
- directing that the modification be made would not be consistent with our principal objective and statutory duties.

Reasons for our decision

We consider this modification proposal will have a negative impact on the achievement of the relevant objectives of (a) Efficient and economic operation of the pipe-line system, and (c) Efficient discharge of the licensee's obligations. We consider the proposal will have a positive impact on (d) Securing of effective competition between relevant Shippers and between relevant Suppliers. We also consider that this modification proposal will have no impact on all other UNC ROs.

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

We consider the proposal will have a negative impact on UNC RO (a).

The proposer assesses that their modification has no impacts on UNC TO (a). In their consideration of the Relevant Objectives, some Panel Members agreed that the modification is positive for Relevant Objective (a), as the modification is intended to prevent Shippers having to overbook capacity. Other Panel Members agreed with the proposer that the modification has no impact on Relevant Objective (a).

Some Panel Members stated that the modification is negative for Relevant Objective (a) because of the expected reduction in the effectiveness of system management tools that can be deployed pre-emergency or in response to an NTS Exit Constraint, specifically those

tools/actions that rely upon voluntary limitation of offtaken quantities to levels of Exit Capacity (which may have been curtailed or surrendered) in order to achieve the objective.

From our assessment of the information made available to us for the purpose of this UNC0860 decision, which includes publicly available information in the FMR and Workgroup reports as well as confidential submissions, we consider that the proposed modification risks impeding the 'ticket-to-ride' principle that underpins the UNC arrangements. This principle incentivises Users to procure capacity rights to flow gas in order to obtain certainty that it can flow gas volumes up to the levels of capacity procured.

We draw this conclusion as current provisions in the TPD (Sections J 3.8.4, J 3.9.3 and J 3.10.5) limit the extent of Transporters' obligations to make gas available for offtake to the levels of capacity held by Users. These provisions ensure that a User's right to offtake is secured only when they have demonstrated a corresponding commitment by holding necessary capacity. In practice, this sets an appropriate limit on the overarching obligations on Transporters to make gas available for offtake pursuant to TPD Section J 3.2.1. Removal of the aforementioned limitation, as thus advocated by the proposal, runs contrary to the 'ticket-to-ride' principle, since it reduces the incentive for Users to procure capacity.

We consider that changes to the 'ticket-to-ride' principle and its resulting impact on the Exit Capacity regime could reduce the need for customers to book capacity. In practice, this could have the effect of weakening signals to NGT to increase network capability when it is required.

Overall, we conclude that the proposal would likely have a negative impact on RO (a) and on NGT's ability to operate efficiently as required by licence.

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

We consider the proposal will have a negative impact on UNC RO (c).

The Proposer assesses that their modification has no impacts on UNC RO (c). This opinion was shared by some Panel Members. Other Panel Members agreed that the Modification is negative

for Relevant Objective (c) because the reduction in the effectiveness of system management tools and the value of capacity information adversely impacts the ability of NGT to operate the system in an efficient, economic and coordinated manner which is a requirement of NGT's licence as set out in Special Condition 9.19.2.

Our assessment is that the modification could risk a less efficient discharge of the licensee's obligations under this licence.

The proposed reforms to the TPD could raise challenges for the licensee in the event of a NTS Exit Constraint, as the licensee would be subject to conflicting requirements due to being obliged to:

- make gas available for offtake at quantities in excess of what it believes it can physically make available (due to the NTS Exit Constraint) and the User would have an entitlement to such offtake of gas, and
- accept an OPN for a flow rate in excess of what it believes it can physically make available (i.e. the residual Exit Capacity level).

It is our assessment that this would have a negative impact on 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

We consider the proposal will have a positive impact on UNC RO (d).

The Proposer states that this modification will have positive impacts on securing of effective competition between Shippers and/or Suppliers. Some Panel Members stated that the modification is positive for Relevant Objective (d), because it would improve clarity in the way that operation of the System is implemented under the UNC, as the risks and implications of offtake would be better understood. This would thus enhance competition. Other Panel

Members agreed that avoidance of overbooking capacity would have a positive impact on this objective.

The Proposer notes that the modification would reform the current gas transmission pricing methodology where the cost of transporting gas is uniform across the entire network, regardless of the distance travelled, incentivising Shippers to buy capacity in the short term.

However, the Proposer asserts that Users are also overbuying capacity in long-term auctions to mitigate concerns that NGT could restrict short-term capacity. In practice, the costs of overbuying capacity could be passed on to consumers through higher bills.

One Panel Member stated that the modification is negative for Relevant Objective (d) part (iii) between Distribution Network (DN) operators and relevant Shippers as the possible benefits of the modification Proposal do not extend to DN offtakes, and therefore the modification introduces different rules between DN Users and Shipper Users. Other Panel Members stated that there are already several differences in treatment between DN Users and Shippers, such as capacity being booked through a different mechanism and the capacity products being different, and therefore there is no impact and the modification is neutral for Relevant Objective (d).

It is our assessment that the modification will likely have positive impacts in promoting effective competition between Shippers and/or Suppliers. Greater clarity in how the system is operated and a reduction in overbuying should support competition, which should ultimately benefit consumers through lower bills. However, neither Ofgem nor the Proposer have been able to quantify these benefits to consumers.

As stated above, it is the view of the the Proposer and their supporters that the current discretion for NGT to reduce or discontinue offtake of gas before a Stage 2 NGSE is at variance with the NEP, which outlines the UK's procedures for managing emergencies in the gas and electricity sectors.

The NEP is a DESNZ document, with policy responsibility for the development and implementation of emergency planning requirements sitting with that Department. While comment was sought from DESNZ on the intended interaction between requirements, a

response was not provided in time for publication of this decision meaning Ofgem could not confirm that the requirements of the UNC are in fact at variance with the NEP as the proposer suggests. In lieu of confirmation, Ofgem considers that it is possible that such a variance exists. Ofgem will continue its engagement with DESNZ on this matter, but also encourages industry parties to engage with the Department in relation to the UNC and the NGSE.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority has decided that modification proposal UNC 0860: 'Clarify impact of exit capacity holdings on offtake rights' should not be made.

It is our belief that the modification's potential positive impacts for RO (d) do not outweigh the risks presented by the modification's impact on the 'ticket-to-ride' principle and NGT's system management requirements stated in previous paragraphs. However, it is clear that the issues raised by the Proposer are valid and merit further attention. We would be open to exploring additional reforms (including outside the UNC) that might address these issues in a different manner.

William Duff

Head of Gas Systems and Operation

Signed on behalf of the Authority and authorised for that purpose