Modification proposal:	**Uniform Network Code (UNC) 729: Applying a discount to the Revenue Recovery Charge at Storage Points**		
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:	30 July 2021	Implementation date:	1 October 2021

Background

On 28 May 2020, we approved modification proposal UNC678A: 'Amendments to Gas Transmission Charging Regime (Postage Stamp)'[3] and decided that it should be implemented on 1 October 2020. UNC678A introduced a 50% discount for capacity-based transmission tariffs at entry points from and exit points to storage facilities which is the minimum for storage sites mandated by Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas ("**TAR NC**").[4] This discount will increase to 80% through the approval of modification proposal UNC727 from 1 October 2021.[5]

Under the UNC, National Grid Gas (**"NGG"**) can apply a Revenue Recovery Charge ("**RRC**") to address over- or under-recovery of revenue.[6] The storage discount is currently not applied to the RRC.

[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] Amendments to Gas Transmission Charging Regime: Decision and Final Impact Assessment (UNC678/A/B/C/D/E/F/G/H/I/J) (28 May 2020) https://www.ofgem.gov.uk/publications-and-updates/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij
[4] Now incorporated in UK law by the European Union (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020, as amended by Schedule 5 of the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations SI 2019/531.
[5] UNC727 Increasing the Storage Transmission Capacity Charge Discount to 80%: Decision https://www.ofgem.gov.uk/publications-and-updates/unc727-increasing-storage-transmission-capacity-charge-discount-80-decision
[6] Uniform Network Code Transportation Principal Document Section Y (Part A-I NTS Transportation Charging Methodology) §3.

NGG has applied a RRC from 1 February 2021 until the end of the current Gas Year (ie 30 September 2021).[7] On 23 December 2020, we published an open letter to NGG setting out our views on RRCs.[8] In our letter we stressed that:

"We note the importance to the market of price stability and predictability. When revising the [RRCs], NGGT should consider the impact on prices both for this and future gas years and should aim as far as possible to avoid any other interventions (including further charges to [RRCs]) that could further undermine market confidence".

The modification proposal

On 24 June 2020, Storengy UK Ltd ("**the Proposer**") raised UNC729: 'Applying a discount to the Revenue Recovery Charge at Storage Points'[9], which proposes to introduce a discount to the RRC for entry and exit capacity at storage points equivalent to the discount applied to the reserve prices in respect of firm and interruptible/off-peak capacity. A request for urgent status was made on 24 June 2020 which was denied by Ofgem on 30 June 2020.[10] We received the Final Modification Report ("**FMR**") on 18 September 2020.

The Proposer says that the RRC is a 'capacity-based tariff' employed to ensure that NGG recovers its Allowed Transmission Revenue across the Gas Year and that in TAR NC it is accepted that storage users should incur lower capacity charges. The Proposer says that Storage Users should therefore be afforded the same discount to the RRC to avoid cross-subsidisation and ensure compliance with TAR NC.[11]

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[7] Notification of Transmission Services Entry and Exit Revenue Recovery Charges from 1st February 2021 (30 December 2020) https://www.nationalgrid.com/uk/gas-transmission/document/134126/download
[8] Open letter to National Grid Gas Transmission on Transmission Services Revenue Recovery Charges https://www.ofgem.gov.uk/publications/open-letter-national-grid-gas-transmission-transmission-services-revenue-recovery-charges
[9] https://www.gasgovernance.co.uk/index.php/0729
[10] UNC729 Applying a discount to the Revenue Recovery Charge at Storage Points: Urgency Application https://www.ofgem.gov.uk/publications-and-updates/unc729-applying-discount-revenue-recovery-charge-storage-points-urgency-application
[11] See UNC729 FMR page 3.

UNC Panel[12] recommendation

At the UNC Panel meeting on 17 September 2020, a majority of the UNC Panel did not recommend the approval of UNC729.

UNC729 was subject to an industry-led consultation from 20 August 2020 to 11 September 2020. Six representations were received from interested parties. These are available on the Joint Office of Gas Transporters' website and summaries are provided in the FMR.[13] Of the 6 representations, 3 supported implementation, 1 provided comments and 2 were not in support.

Our decision

We have considered the issues raised by the modification proposal and the FMR dated 18 September 2020. We have considered and taken into account the responses to the industry consultations on the modification proposal which are attached to the FMR. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;[14] and
- directing that the modification be made is consistent with our principal objective and statutory duties.[15]

Reasons for our decision

The FMR includes an assessment of the UNC Relevant Code Objectives and the UNC Charging Methodology Relevant Objectives ("**CMRO**"). Given the similarities between the UNC Relevant Code Objectives and the CMROs, we assess them in tandem.

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[12] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[13] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk.
[14] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: https://epr.ofgem.gov.uk//Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf
[15] 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.

We consider this modification proposal will better facilitate UNC Relevant Code Objective (g) and UNC CMROs (a), and (e), and has a neutral impact on UNC Relevant Code Objectives (d), and (e), and UNC CMRO (c). We consider that the UNC Relevant Code Objectives (a), (b), (c), and (f), and CMROs (aa), (b) and (d) are not relevant to the modification proposal under assessment.

Objective (g) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators and CMRO (e) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

We consider that the proposal better facilitates Relevant Objective (g) and CMRO (e).

The Proposer states: "Article 9 of the EU Tariff Code requires that a discount of at least 50% is applied to capacity-based transmission tariffs at entry points from and exit points to storage facilities [...] Given a Revenue Recovery Charge is a capacity-based transmission tariff established exclusively for the recovery of transmission services revenue, extending the Article 9 discount to Revenue Recovery Charges ensures compliance with the EU Tariff Code."[16] Some UNC Panel Members and stakeholder representations said that the discount at entry and exit points to storage points should not be applied to the RRC and that the RRC is "a complementary revenue recovery charge" under Article 4 TAR NC.

We agree with the Proposer that the RRC is a capacity-based transmission tariff. The storage discount referred to in Article 9 TAR NC should apply to the RRC in the same way as it applies to the capacity reserve price. We do not consider the RRC to be a "complementary revenue recovery charge" as set out in Article 4(3)(b) TAR NC. Article 4(3)[17] requires transmission services revenue to be recovered by capacity-based tariffs but, as an exception, a national regulatory authority may approve commodity-based transmission tariffs in accordance with

[16] We note that the Final Modification Report contains an assessment against compliance with the EU Tariff Code ("TAR NC"). We have made our assessment of compliance against the retained version of TAR NC incorporated in UK law by the European Union (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020, as amended by Schedule 5 of the Gas (Security of Supply and Network Codes) (Amendment) (EU Exit) Regulations SI 2019/531 which in turn is amended by SI 2019/1939.
[17] *"The transmission services revenue shall be recovered by capacity-based transmission tariffs."*

Article 4(3)(a) and (b). The RRC is, in accordance with the principal requirement of Article 4(3) and our UNC678A final decision, a capacity-based transmission tariff.

Therefore, and taking into account the requirements of Article 9, the modification better facilitates Relevant Objective (g) and CMRO (e) by updating the charging methodology within the UNC so the discount on the RRC is correctly applied at storage points, thus better facilitating compliance with the relevant legislation.

UNC Panel Members noted in their consideration of Relevant Objective (g) that "without access to legal advice, a definitive answer was difficult to achieve." When the UNC Panel are determining whether or not a modification proposal better facilitates achievement of the relevant objectives, they may be required to determine whether or not the proposal better facilitates relevant objectives on compliance. The UNC Panel should ensure they are able to make such determinations.

CMRO (a) save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business

We consider that the proposal will better facilitate CMRO (a).

The Proposer states: "The revised Methodology does not discount the Revenue Recovery Charge at storage points and as a result total capacity charges will not avoid double counting and will exceed the costs imposed by storage Users on the network".

Under the status quo, the RRC affects the cost for capacity at storage sites. A positive RRC would effectively reduce the discount relative to the nominal discount rate (50% or 80%), whereas a negative RRC would effectively increase the discount in a non-cost reflective way. The modification will ensure that the RRC does not change the discount on capacity-based tariffs at storage entry and exit points by applying the storage discount to the RRC. This would therefore better facilitate this objective by creating a more cost reflective charging methodology.

Objective (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 and CMRO (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

We consider that the proposal will have a neutral impact on Relevant Objective (d) and CMRO (c).

The Proposer states: "Non-discounted RRCs would result in storage Users making disproportionate contributions to Transmission Services […] creating a cross-subsidy between storage and non-storage Users." In UNC727, we said that we consider the impact of increasing the storage discount from 50% to 80% as having a neutral impact on Objective (d) and CMRO (c).[18] This is because we expected the impact on competition to be marginal and that the increase would only lead to a marginal change in the tariffs at other entry points. For the same reasons, we also consider the application of the discount to the RRC to be marginal. UNC729 would therefore have a neutral impact on Relevant Objective (d) and CMRO (c).

Objective (e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects the availability of gas to their domestic customers

We consider that the proposal will have a neutral impact on Relevant Objective (e).

The Proposer states: "Storage facilities provide price stability benefits by dampening price spikes and reducing price volatility as they respond to market price signals, which in turn are highly correlated with supply and demand. A non-discounted RRC will likely erode storage revenues and affect closure decisions; a discounted RRC would better reflect this relevant objective by limiting the erosion of the storage revenues."

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[18] UNC727 Increasing the Storage Transmission Capacity Charge Discount to 80%: Decision https://www.ofgem.gov.uk/publications/unc727-increasing-storage-transmission-capacity-charge-discount-80-decision

In our UNC678 final decision we said that: "We remain of the view that any security of supply impacts [of an 80% storage discount] are likely to be related to price stability rather than physical security" because of the resilience of the GB market in combination with the relatively low magnitude of any expected impacts resulting from tariffs in comparison to wider market structure.[19] We therefore considered the increase of the storage discount from 50% to 80% to have a neutral impact on this objective. For the same reasons, we consider that a storage discount applied to the RRC will have a neutral impact when assessing Objective (e).

Implementation date

UNC729 proposes that this modification is implemented on 1 October 2020 or as soon as possible thereafter.

In recent decisions, we have decided that changes to the applicable charging methodology that will impact prices should be introduced at the start of a Gas Year.[20] We consider that this approach benefits price stability and predictability, which are core principles of TAR NC.

For these reasons, we have decided that the implementation date for UNC729 shall be 1 October 2021.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC729: '*Applying a discount to the Revenue Recovery Charge at Storage Points*' be made, in accordance with the implementation date directed above.

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[19] UNC678A final decision (28 May 2020), page 14 https://www.ofgem.gov.uk/publications/amendments-gas-transmission-charging-regime-decision-and-final-impact-assessment-unc678abcdefghij Also see UNC678 MTD (23 December 2019), page 61 https://www.ofgem.gov.uk/publications/amendments-gas-transmission-charging-regime-minded-decision-and-draft-impact-assessment
[20] See UNC727, UNC728.

David O'Neill

Head of Gas Markets and Systems

Signed on behalf of the Authority and authorised for that purpose