Making a positive difference
for energy consumers

Non-UK regulatory authorities of all
directly connected countries or
territories;
the Utility Regulator of Northern
Ireland (Uregni);
relevant stakeholders.

Email: gas.systems@ofgem.gov.uk

Date: 23 July 2024

Dear Stakeholders,

Article 28 TAR NC consultation with the non-UK regulatory authorities of all directly connected countries or territories, the Utility Regulator of Northern Ireland and the relevant stakeholders

Article 28 of the Tariff Network Code ("TAR NC")[1] requires that Ofgem[2] must consult, within every tariff period, with the non-UK regulatory authorities of all directly connected countries or territories, the Utility Regulator of Northern Ireland ("Uregni"), and relevant stakeholders on the following items:

a. the level of multipliers;
b. if applicable, the level of seasonal factors and how these are calculated;
c. the levels of any discounts:
    i) at entry points from LNG facilities;
    ii) at entry points from and exit points to infrastructure developed with the purpose of ending the isolation of Great Britain or Northern Ireland, or other countries or territories, in respect of their gas transmission systems;
    iii) and the level of any discounts for standard capacity products for interruptible capacity.

In the Great Britain ("GB") context, gas transmission charging arrangements are set out in Section Y (Charging Methodology) of the Uniform Network Code ("UNC") Transportation Principal Document ("TPD")[3]. The open governance framework in GB[4] allows UNC signatories who wish to amend any of the above items to raise such UNC code modification

[1] Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, now assimilated 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 2019 (S.I. 2019/531) which was then itself amended by the Gas Tariffs Code (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1393).
[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 document.
[3] See https://www.gasgovernance.co.uk/TPD
[4] See Industry code governance: https://www.ofgem.gov.uk/licences-industry-codes-and-standards/industry-code-governance

proposals via the established industry-led process. In accordance with the UNC, the National Transmission System Charging Methodology Forum ("NTSCMF") has been established to be a UNC Workgroup that discusses and develops modifications to the gas transmission charging methodology in the UNC TPD, as well as to discuss NTS charging methodology related issues and topics[5].

Taking into account the requirements of the TAR NC, the established governance framework for proposing modifications to gas transmission charging arrangements, and our experience of limited engagement from previous Article 28 consultations, we are structuring our consultation in a way that we feel will better facilitate stakeholders to provide their views on the above items this year.

Our intention is that this year's consultation will fulfil the requirements of the TAR NC, but will also provide all stakeholders, including those who are not signatories to the UNC, with the opportunity to share their insights on these items. These comments may then be used by Ofgem and other interested parties to identify and inform areas of future policy discussion and regulatory improvement.

Specifically, for each item addressed in Article 28 of the TAR NC, we would like to invite views on:

(a) the current levels (where applicable in the GB gas transmission charging methodology context);
(b) whether there is any merit to adjusting the levels of these items, or, where those items do not apply, introducing these items into the GB gas transmission charging methodology; and
(c) the usefulness and/or desirability of these items as tools to be used by the regulator for
    a. protecting the interests of consumers,
    b. reaching relevant environmental targets, or
    c. ensuring the efficient and economic operation of gas networks,

    either in the GB context or in neighbouring jurisdictions.

Lastly, we encourage stakeholders to offer their views on whether this Article 28 consultation can be conducted differently and improved in the GB context in future.

Consultation Questions

We invite responses from stakeholders on the questions set out in this consultation. The consultation will be open for **four weeks**. Responses to this consultation must be sent to Gas.Systems@ofgem.gov.uk by **20 August 2024.** Following the end of the consultation, we shall take a motivated decision in accordance with the requirements of Article 28 of the TAR NC on those items which are relevant to the statutory consultation and publish our decision on our website.

Please note that we will publish on our website all non-confidential responses submitted to us. If you want to respond confidentially, please clearly mark your response as such and include your reasons. Mark clearly the parts that are confidential, and the parts that are not, including confidential material in appendices if possible.

Yours sincerely,

William Duff
Head of Gas Systems and Operation
Signed on behalf of the Authority and authorised for that purpose

[5] See https://www.gasgovernance.co.uk/ntscmf.

Questions – Article 28 TAR NC Consultation (2024)

Multipliers

Multipliers are factors used to set tariffs for short-term gas transmission capacity products (within-day, daily, monthly and quarterly). Multipliers are applied to the (annual) reference prices and define the reserve prices that apply in the sub-annual standard product auctions. In effect, multipliers can influence network users' booking behaviours and hence the proportion of revenues recovered from each network user.

When consulting on the levels of multipliers, Article 28(3) of TAR NC requires we take into account the view of respondents regarding the following aspects:

- the balance between facilitating short-term gas trade and providing long-term signals for efficient investment in the transmission system;
- the impact on the transmission services revenue and its recovery;
- the need to avoid cross-subsidisation between network users and to enhance cost-reflectivity of reserve prices;
- situations of physical and contractual congestion;
- the impact on cross-border flows.

Article 13(1) of the TAR NC sets limits on the multiplier factors which may be applied:

(a) for quarterly standard capacity products and for monthly standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 1.5;

(b) for daily standard capacity products and for within-day standard capacity products, the level of the respective multiplier shall be no less than 1 and no more than 3. In duly justified cases, the level of the respective multipliers may be less than 1, but higher than 0, or higher than 3.

In the GB, a multiplier of 1 is currently applied to all non-annual capacity products.

1) What is your view on the current level of multipliers in the GB gas transmission charging methodology?
2) In your view, would there be merit changing the multipliers, and if so to what level and based on what rationale? If available, please provide any information, data or analysis which supports your view.
3) If you have any additional comments on the use and effectiveness of multipliers in either the GB context or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views.

Seasonal Factors

The TAR NC defines 'seasonal factor' as the factor reflecting the variation of demand within the year which may be applied in combination with the relevant multiplier. Seasonal factors can be used to influence network users' booking behaviour.

Where seasonal factors are applied, Article 13(2) of TAR NC defines that the arithmetic mean over the gas year for the combined effects of multiplier and seasonal factor is within the same ranges as are applicable for multipliers[6].

[6] As defined within Article 13(1) and with the arithmetic mean being between 1 and 1.5 for quarterly and monthly standard products and between 1 and 3 for daily and within day standard products (unless duly justified).

When consulting on the levels of seasonal factors, Article 28(3) of TAR NC requires we take into account the view of respondents regarding the following aspects:
(i) the impact on facilitating the economic and efficient utilisation of the infrastructure;
(ii) the need to improve the cost-reflectivity of reserve prices.

In the GB gas transmission charging methodology, no seasonal factors are currently applied.

1) What is your view of the current absence of seasonal factors in GB?
2) In your view, would there be merit to introducing seasonal factors, and if so how and based on what rationale? If available, please provide any information, data or analysis which supports your view.
3) If you have any additional comments on the use and effectiveness of seasonal factors in GB or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views.

Discounts for LNG entry points

Article 9(2) of the TAR NC provides for discounts for LNG entry points to increase security of supply. In the GB, although there is provision in the UNC for a 'Specific Point Discount' for LNG Import Terminal Points, this discount is currently set at 0%.

Discounts for LNG entry points are commonly used in other jurisdictions. We note there have been suggestions from relevant stakeholders that such discounts should be introduced in GB in order to maintain the competitiveness of the GB gas transmission system and better serve the interests of consumers from a security of supply perspective. We therefore would like to collect views on the merits and potential impact of introducing such discounts in GB to inform our policy analysis.

1) What is your view of the current absence of discounts for LNG entry points in GB?
2) In your view, would there be merit to introducing discounts for LNG entry points, and if so, what would be the appropriate level and the rationale for doing so? If available, please provide any information, data or analysis which supports your view.
3) If you have any additional comments on the use and effectiveness of discounts for LNG entry points in GB or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views.

Discounts for interruptible capacity

Article 16 of TAR NC requires the calculation of reserve prices for standard interruptible capacity products by applying a discount to the reserve prices for the corresponding standard firm capacity products.

Firm Capacity is financially and contractually guaranteed to be available. If the Transmission System Operator ("TSO") cannot honour this firm capacity, the network user can sell it back to the TSO in exchange for compensation. In contrast, interruptible capacity can be withdrawn by the TSO if the system cannot provide it on the Gas Day, but no such compensation entitlement is available. Hence, interruptible capacity is considered less valuable than firm capacity, and thus a discount is applied.

There is currently a 10% discount applied for interruptible capacity at both Entry and Exit points (including interconnection points) of the GB gas transmission system.

1) What is your view of the current level of discounts for interruptible capacity in GB?
2) In your view, would there be merit to adjusting the discounts for interruptible capacity prices, and if so, what level of discount would you suggest and based on what rationale? If available, please provide any information, data or analysis which supports your view.
3) If you have any additional comments on the use and effectiveness of interruptible capacity discounts in GB or other jurisdictions, please provide your views, and, if available, any information, data or analysis which supports those views.

Article 28 Consultations

In accordance with Article 28 of the TAR NC, Ofgem is required to conduct this consultation every year.[7] Historically, Ofgem has conducted this statutory consultation to align with the gas transmission charge setting processes prescribed by the UNC and TAR NC.

In doing so, we have received minimal engagement on those matters required to be consulted on under Article 28 of the TAR NC, noting that many of those items do not currently apply in the GB context, and those items which do apply in GB are calibrated in a manner so as to have no impact on current charge setting processes.

1) Do you have any comments or observations on the value to stakeholders and consumers of Ofgem continuing to conduct this annual consultation?
2) Do you have any suggestions on how Article 28 consultations may be improved or conducted differently in future to maximise value for stakeholders and consumers?

[7] Please note, TAR NC is secondary legislation within the UK. It is not within Ofgem's powers to amend or repeal this legislation.