

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

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Date: 27 September 2024

Dear Stakeholders,

Authority decision regarding the consultation as required by Article 28 of the Tarriff Network Code

This letter sets our¹ decision in accordance with Article 28(1) of the Tarriff Network Code ("TAR NC")², on those items which are relevant to the statutory consultation.

Background

Article 28 of the TAR NC requires that Ofgem 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.

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 document.

² [Commission Regulation \(EU\) 2017/460](#) of 16 March 2017 established 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 \(S.I. 2019/1393\)](#).

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 industry code governance framework⁴ in GB allows UNC signatories who wish to amend any of the above items listed in Article 28(1) to raise UNC code modification proposals via the established industry-led process. In accordance with the UNC, the National Transmission System (“NTS”) Charging Methodology Forum (“CMF”) 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 topics⁵. Attendance to the NTSCMF is open to all interested parties.⁶

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 elected to structure our 2024/25 Gas Year consultation in a way that we felt would better facilitate all stakeholders to provide their views on the above items.

Our intention was that this year’s consultation would fulfil the requirements of Article 28 of TAR NC and also provide all stakeholders, including those who are not signatories to the UNC and who might not ordinarily engage with this process, with the opportunity to share their insights on these important items. Responses could then be used by Ofgem and other interested parties to identify and inform areas of future policy discussion and regulatory improvement, including through the NTSCMF.

Article 28 Consultation

On 23 July 2024, we opened our Article 28 TAR NC consultation and invited responses from interested parties on the items listed in Article 28(1). Our consultation remained open for 4 weeks, closing on 20 August 2024.⁷

For each item, we invited views on:

- a) the current levels (where applicable in the GB gas transmission charging methodology context);
- b) whether there might be 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. In addition to these questions, we also sought feedback on our approach to this consultation, with a view to improving the way we engage with stakeholders on these important topics.

In total, we received eight formal responses, including six non-confidential responses which have been published on Ofgem’s website.⁸ Among the six non-confidential responses, we received two responses from Gas Shippers, two from LNG Terminal Operators, one from a Gas Interconnector, and one from National Gas Transmission (“NGT”). For ease of reading, we have summarised and grouped the responses under the following headings.

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>

⁵ See <https://www.gasgovernance.co.uk/ntscmf>.

⁶ See NTSCMF Terms of Reference: [NTS Charging Methodology Forum | Gas Gov 2023 \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk/NTS-Charging-Methodology-Forum-Gas-Gov-2023)

⁷ See [Article 28 TAR NC Consultation \(2024\) | Ofgem](https://www.ofgem.gov.uk/consultation/consultation-2024-07-23)

⁸ See Ibid.

Multipliers, seasonal factors, and interruptible capacity discounts

Summary of consultation responses

We received five responses which supported maintaining the current level of multipliers. four responses supported maintaining the current level of seasonal factors. three responses supported maintaining the current level interruptible capacity discounts.

Ofgem's view

We acknowledge the general support demonstrated by the responses to maintain the current levels of multipliers, seasonal factors, and interruptible capacity discounts. We have received no responses or substantive evidence suggesting that an adjustment to these values should be made at this time. As such, we are satisfied that for the current Gas Year of 2024/25, these items should remain at the current level (where applicable in the GB context) as set out in the UNC.

However, Ofgem encourages NGT and industry stakeholders to continually review the appropriateness of the charging methodology in the UNC, including these items, from time to time and initiate discussions at the NTSCMF as and when necessary. Ofgem also reserves the right to further explore these items in future and may consult further on these matters should the need arise.

Discounts for LNG entry points

Summary of consultation responses

We received six responses supporting the introduction of discounts at LNG entry points in GB. Among those responses, the following issues were raised in support of the introduction of discounts at LNG entry points:

- All six responses pointed out that NTS Entry Capacity charges in GB are higher than our neighbouring countries in Europe, which may have a negative impact on attracting LNG deliveries to GB, security of supply to GB consumers as well as the utilisation of LNG terminals in GB.
- Three responses highlighted that the natural gas production in the United Kingdom Continental Shelf (UKCS) is now declining and will continue to decline. These responses said that this would increase the need for GB to enact measures to better compete in the global markets to attract imported LNG.
- Four responses noted that nearby European countries are increasingly relying on LNG imports, and that these countries have stepped up construction of regasification facilities in recent years. These responses said that this would increase the competition for LNG deliveries between those countries and GB.
- Two responses highlighted the potential secondary impacts of high NTS entry charges on further increasing energy costs for consumers under the status quo.
- One response claimed that LNG discounts would reduce overall gas transmission costs by maximising the utilisation of the GB gas network.

We received one response which cautioned against the introduction of discounts for LNG entry points in the GB. That response argued that all gas import routes should enjoy a level playing field and charging arrangements should be non-discriminatory and support effective competition, which will benefit security of supply of gas to GB consumers. This response also noted that discounts may result in 'missing revenue' that must be recovered from higher charges paid by other users. The response advocated for a review of the current Entry/Exit("E/E") split⁹ in relation to Transmission Services Revenue allocation as a more holistic and better approach to enhance security of supply and GB competitiveness, as opposed to the introduction of specific discounts for one class of NTS gas entry user.

⁹ According to the UNC, NGT currently recovers their Transmission Services Revenue through capacity charges and this is split equally between Entry and Exit, with 50% of their Transmission Services Revenue aimed to be recovered through Entry Capacity charges and 50% through Exit Capacity charges.

We received one neutral response, which observed that there are other jurisdictions in Europe that use LNG discounts. This response noted that potential LNG discounts is being discussed at the NTSCMF as part of the discussions on E/E split of Transmission Service Revenue and these discussions could continue to be shaped to include the treatment for LNG entry points, or LNG discounts could be treated as a separate discussion item.

Entry/Exit split of NTS Transmission Service Revenue

While the E/E split of Transmission Service Revenue was not strictly within the scope of this consultation, we note that five responses were received which touched upon potential adjustments to the current split ratio with a view to lowering the NTS Entry Capacity charges and the current discussion at the NTSCMF. We include reference to this matter within our consultation response because adjusting the E/E split and potential LNG discounts are measures which are claimed by respondents to achieve a similar outcome of enhancing GB's attractiveness to gas imports and can be used as alternatives or in conjunction with one another.

Four responses received were supportive of adjusting the ratio of the current split to lower the entry portion and increase the exit portion, as a suggested means to lower NTS Entry Capacity charges and thus improve GB competitiveness in relation to importing gas and boost security of supply of gas to consumers. One response received noted that such an adjustment that results in higher NTS Exit Capacity Charges may burden end users or increase the cost of transporting gas to neighbouring markets connected via the interconnectors.

Ofgem's view

Ofgem's principal objective is to protect the interests of existing and future energy consumers which includes maintaining the security of supply of gas to GB. We acknowledge the need for GB to remain an attractive destination for gas imports and we recognise the important role that LNG currently plays and will continue to play in meeting GB's energy needs. In 2023, LNG represented 43% of the total gas imports to GB¹⁰.

We note that among the responses we received, there was strong support for introducing LNG discounts to lower NTS Entry Capacity charges at LNG entry points, on the basis that this would improve GB's competitiveness in the global LNG market. However, we also note stakeholders' concerns that such discounts could have an impact on the Entry Capacity charges paid by non-LNG users and this may have an impact on competition among Gas Shippers and potentially distort that market.

We observed strong support amongst respondents for the ongoing review of the E/E split of NTS Transmission Service Revenue at the NTSCMF as a potential solution to address stakeholders' concerns of perceived high Entry Capacity charges. We note that unlike LNG discounts, adjusting the E/E split as a means to lower Entry Capacity charges would have a uniform impact on the charges applicable to all NTS Entry Capacity users, which is potentially more preferable from a competition perspective. We understand respondents' views that lower NTS Entry Capacity charges could reduce the cost of importing gas (including LNG) into the GB, which could theoretically attract more gas imports. We also understand the theoretical position that increased gas imports may enhance security of supply of gas to GB consumers and may also have an impact on lowering wholesale gas price on the basis that competition amongst the gas importers could drive down gas price. On the other hand, we also note that an adjustment to the E/E split, which results in higher NTS Exit Capacity charges, may impact other end users of the NTS and consumers which will need to be carefully assessed.

¹⁰ Source: "Digest of UK Energy Statistics (DUKES): natural gas" published by Department for Energy Security and Net Zero, which is available at <https://www.gov.uk/government/statistics/natural-gas-chapter-4-digest-of-united-kingdom-energy-statistics-dukes>

We note that the current E/E split is set out in Section Y of the UNC TPD and a modification to the UNC would be required to make any change to it. We understand that this matter has been actively discussed at the NTSCMF as led by NGT as of March 2024¹¹ with a view to considering the potential benefits and impact of different split options as well as whether or not a proposed change to the current split would better achieve the UNC Relevant Objectives (ROs) and UNC Charging Methodologies Relevant Objectives (CMROs)¹². We encourage NGT and relevant stakeholders to expedite the discussion on this matter at the NTSCMF and we will continue to monitor this item closely. We also believe that by raising a UNC modification stakeholders could have a more structured framework under the existing Code Modification rules to guide the discussion. We also note that in discussions at the NTSCMF, stakeholders have requested for more evidence and analysis to be provided on the potential impacts, including those mentioned in the above paragraph, of any adjusted split, which we agree might better inform the discussion.

When considering a UNC modification, Ofgem must assess whether the modification will better achieve the UNC ROs and/or UNC CMROs as well as whether it is in line with our principal objective to protect the interests of existing and future consumers and our other statutory duties. We therefore recommend that the NTSCMF and the proposer of a UNC modification should consider our principal objective and statutory duties in the event of a UNC modification being raised and discussed¹³ on this matter. In particular, we recommend the following items be considered:

- (a) whether there is any evidence which demonstrates that the current level of NTS Entry Capacity charges have a negative impact on GB's competitiveness in attracting gas imports (including but not limited to LNG)¹⁴;
- (b) whether, and to what extent, an adjusted E/E split might enhance GB's competitiveness as mentioned above, and to what extent this may increase gas imports and enhance security of supply of gas to GB consumers. We encourage any such assessment to take into account (but not necessarily be limited to) the current gas import costs in GB as well as those in our neighbouring countries;
- (c) whether and to what extent will an adjusted E/E split further the interests of existing and future consumers in other aspects.

We emphasise that, although we encourage NGT and industry stakeholders to discuss and raise a UNC modification if appropriate on this matter, we do not presently have a preference on whether the E/E split should be adjusted or for a certain split option at this stage. Further, while we believe in the current circumstances a UNC modification will be useful in providing a better structure to guide the discussion and decision making as informed by relevant evidence, there is no guarantee that the UNC modification will be approved by Ofgem. For the avoidance of any doubt, nothing in this letter fetters our discretion to approve, reject or send back the UNC modification when it is raised and submitted to us for decision.

We suggest that, subject to the completion of the review of the E/E split at the NTSCMF and a relevant UNC modification (if raised), NGT and stakeholders may revisit the need to initiate a separate discussion on whether LNG discounts should be introduced, taking into account the impact of any adjusted E/E split on NTS Entry Capacity charges. In accordance with the UNC, the discount at LNG entry point should be 0% for Gas Year 2024/25.

¹¹ See <https://www.gasgovernance.co.uk/ntscmf> for meeting documents.

¹² The UNC Relevant Objectives and UNC Charging Methodologies Relevant Objectives are set out in paragraph 1 of Standard Special Condition A11 and paragraph 5 of Standard Special Condition A5 of the Gas Transporters Licence respectively.

¹³ Ofgem's principal objective and statutory duties are principally found in 4AA of the Gas Act 1986: [Gas Act 1986 \(legislation.gov.uk\)](https://www.legislation.gov.uk)

¹⁴ While we have received evidence in this consultation which pointed out the higher NTS Entry Capacity charges in GB compared with European countries, we consider that more evidence is needed on how such price differential impacts GB's competitiveness in attracting gas imports.

Consultation approach

Summary of consultation responses

We received three responses supportive of our approach to this year's Article 28 consultation.¹⁵ Stakeholders said that the consultation could ensure these important issues related to NTS charging arrangements are brought to the attention of all stakeholders, including those who are not signatories to the UNC. One response said an expanded consultation, seeking broader views beyond the statutory requirement of Article 28, could be used to receive more views where it could add value, and as a periodic assessment of views on these and connected charging matters; however, the response noted that it may be challenging to repeat this expanded consultation every year.

Ofgem's view

We are pleased to see the increased number of responses and engagement this year and the positive response to our consultation approach. We greatly appreciate stakeholders' effort in putting together relevant information and data in preparing their submissions. This information and data are useful in terms of facilitating informed discussion and policy analysis.

Relevant non-UK regulatory authorities were approached as part of this consultation, in accordance with requirements of TAR NC. Ofgem met with each of these parties and greatly appreciates the time each of these regulators set aside to discuss matters relevant to the consultation, in addition to the insights they provided in confidence. Each regulatory authority ultimately declined to submit a formal response, meaning that any information shared with Ofgem by them does not form part of this particular consultation and will not be published. That information may nonetheless be used where relevant to inform Ofgem in shaping our future policy analysis.

Engagement with non-UK regulatory authorities is highly valuable to Ofgem. However, this experience combined with previous consultations suggests that such engagement may be better achieved through alternate means outside of the TAR NC mechanism. We will take this learning on board and support our UK Government stakeholders as might be required.

Decision notice

In accordance with the requirements of Article 28 of the TAR NC, Ofgem is required to take a motivated decision following the end of the consultation, on those items which are relevant to the statutory consultation and publish our decision.

Based on the UNC, the current values on those items applicable in Gas Year 2024/25 are provided in Table 1.

¹⁵ The other responses received did not provide a view on our approach to this year's Article 28 consultation.

Table 1 Gas Year 2024/2025 – the levels of multipliers, seasonal factors and discounts

Level of multipliers	1.0
Level of seasonal factors and how these are calculated	n/a
Level of discount at entry points from LNG facilities	0%
Level of discount at entry points from and exit points to infrastructure developed with the purpose of ending isolation of gas transmission systems	n/a
Level of discount for standard capacity products for interruptible capacity	10%

Yours sincerely,

William Duff

Head of Gas Systems and Operation

Signed on behalf of the Authority and authorised for that purpose