

UNC Panel Chair, the Joint Office,
relevant Gas Transporters, Gas
Shippers, and other interested
parties

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UNC727 Increasing the Storage Transmission Capacity Charge Discount to 80%: Urgency Application

On 5 June 2020, the Joint Office of Gas Transporters ("**JO**") received a request from Storengy UK Ltd ("**Storengy**", the Proposer) that Uniform Network Code ("**UNC**") modification UNC727 'Increasing the Storage Transmission Capacity Charge Discount to 80%'¹ should be treated as 'urgent' and proceed under a timetable approved by Ofgem.² After considering the justification provided by the Proposer for this request, we have decided to grant urgent status for UNC727. We set out our reasons below.

Background

On 28 May 2020, we approved modification proposal UNC678A: 'Amendments to Gas Transmission Charging Regime (Postage Stamp)' and decided that it should be implemented on 1 October 2020. On 5 June 2020, the Proposer raised UNC727 and requested that it should be treated as urgent and proceed under a timetable approved by the Authority. This modification proposes to increase the discount to be applied for storage related National Transmission System ("**NTS**") capacity to 80%, from 50%.

Our decision on urgency

We have considered the Proposer's justification for urgency in respect of UNC727. We have assessed the request against the urgency criteria set out in Ofgem's published guidance.³ The guidance sets out the factors the Authority will consider in reaching a decision on urgency in the context of industry code modification proposals – it is intended to be illustrative and not exhaustive. Each request for urgency will be considered on its merits on a case by case basis by reference to the guidance, and in circumstances where we depart from it, we will explain the reasons why. Ordinarily we take the view that an urgent modification should be linked to an imminent issue⁴ or a current issue that if not urgently addressed may cause:

- i. A significant commercial impact on parties, consumers or other stakeholder(s); or
- ii. A significant impact on the safety and security of the electricity and/or gas systems, or;
- iii. A party to be in breach of any relevant legal requirements.

¹ <https://www.gasgovernance.co.uk/0727>

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 letter.

³ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

⁴ The imminent issue may be date related.

In their request for urgency, Storengy states that 'the need to introduce the mechanism advocated by this Modification is driven by an imminent date related issue, this being the introduction of the new NTS Charging Methodology from 01 October 2020. [...] If this is not addressed urgently, it would result in a significant commercial impact for storage owners and Users and as detailed within Ofgem's UNC 0678 decision document [...], could ultimately have an adverse impact on security of price and supply for the GB market'.

In our final decision on UNC678 we said that 'in theory, gas storage facilities may bring price stability benefits in times of system stress such as helping to dampen price spikes while reducing price volatility more generally. CEPA's analysis suggested that the change to tariff arrangements could introduce the potential for erosion of storage revenues which could affect closure decisions.' In the accompanying impact assessment we provided more detail and said that 'based on [CEPA's] NPV estimates of storage surplus, the impacts of the tariff could be significant, representing a reduction in surplus of up to 76%'.⁵

For these reasons we consider that the urgency request is justified based on the above criterion (i), namely it is linked to an imminent issue that if not urgently addressed may cause a significant commercial impact on storage owners. Specifically, the erosion of storage revenues which could affect closure decisions with potential impacts on price volatility for all gas consumers. Criteria (ii) and (iii) are not relevant to this decision and have not been assessed. Note that our decision on urgency does not have any bearing on the implementation date, if any, which will be part of any final decision that we make on UNC727.

The UNC727 modification should proceed under the following timetable:

Process	Date
Ofgem approval of Urgent status	12 June 2020
Draft Modification Report issued for consultation	15 June 2020
Consultation Close-out for representations	26 June 2020
Final Modification Report available for Panel	2 July 2020
Modification Panel recommendation	3 July 2020
Final Modification Report issued to Ofgem	3 July 2020

For the avoidance of doubt, we note that this timetable differs from the one that was recommended by the Proposer: we did not make a decision on urgency, in accordance with the suggested timetable, on the 10 June 2020. We do not consider this to materially affect the proposed timetable and expect that the Modification Panel recommendation can still be made on 3 July 2020 as set out in the suggested timetable and confirmed above.

To facilitate consideration of compliance of the modification(s), including any proposed implementation date, with the relevant legislation (including but not limited to Articles 28-32 of the Tariff Network Code) we expect the Joint Office of Gas Transporters to include a relevant question within the consultation response template, and expect parties to give this due consideration.

For the avoidance of doubt, in reaching our decision on urgency we have made no assessment of the substance of the proposed modification, including the recommended implementation date, and nothing in this letter in any way fetters the discretion of the Authority in respect of UNC727.

Frances Warburton

Director, Energy System Transition

Signed on behalf of the Authority and authorised for that purpose

⁵ The estimated reduction in surplus is 62% in the case of modification UNC678A which we decided to implement from 1 October 2020.