

Modification proposal:	<b>Independent Gas Transporters’ Uniform Network Code (IGT UNC) 169: Aligning the Capacity requirements for NExA Supply Points in the UNC with Capacity requirements for LDZ CSEP Ancillary Agreement (LCAA) Supply Points under the IGT UNC (i.e., bringing Code in line with UNC0701 and UNC0853) (IGT UNC169)</b>
Decision:	The Authority <sup>1</sup> directs <sup>2</sup> that this modification be made
Target audience:	IGT UNC Panel, Parties to the IGT UNC and other interested parties
Date of publication:	27 March 2024
Implementation date:	To be confirmed by the code administrator

## Background

In certain cases, gas transporters enter into a bilateral contract with users offtaking gas from their gas transportation network, known as a Network Exit Agreement (NExA). A NExA details the user’s obligations and rules when offtaking gas, including its allowed limits in respect of Supply Point Capacity and Supply Point Offtake Rate. The Uniform Network Code (UNC) sets out the allowed Supply Offtake Quantity (SOQ)<sup>3</sup> and Supply Hourly Quantity (SHQ)<sup>4</sup> levels for contracted parties. Previously, NExAs were not flagged or instantly visible in central data systems. There was also no process in place to ensure the SOQ and SHQ levels in a NExA and those permitted under the UNC were aligned. This could result in discrepancies where a shipper booked more capacity on the system than permitted in its NExA, or a situation where

<sup>1</sup> 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.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> At Daily Metered (DM) supply points registered supply point capacity is equal to the Supply Offtake Quantity (SOQ), where for Non-Daily Metered (NDM) the SOQ is calculated using the supply point End User Category (EUC) and the appropriate load factor.

<sup>4</sup> Supply Hourly Quantity (SHQ), or Supply Point Offtake Rate as referred to in the FMR, is the maximum hourly consumption of a given supply point.

the Provisional Monthly Supply Point Capacity (PMSOQ)<sup>5</sup> could ratchet up to a greater level than in its NExA.

On 27 May 2021, we approved UNC701: *Aligning capacity booking under the UNC and arrangements set out in relevant NExAs* (UNC701)<sup>6</sup>. UNC701 sought to ensure that capacity requested under the UNC at Supply Points on Gas Distribution Networks (GDNs) cannot exceed that allowed by the NExA, without a referral to the relevant gas transporter<sup>7</sup>. It proposed that any new, or change in, daily capacity or hourly flow for Supply Meter Points requested under the UNC should not exceed the value stated in the NExA. It also proposed that the PMSOQ not exceed that value as outlined in the relevant NExA. Where a site ratchets, the Daily Metered (DM) SOQ cannot ratchet above that listed in the relevant NExA.

On 25 September 2023, UNC853S: *'CDSP permissions to facilitate implementation of UNC0701'* (UNC853S)<sup>8</sup> was approved by the UNC Panel as a self-governance modification proposal<sup>9</sup>. UNC853S added clarity to the UNC that should the Shipper not reduce the capacity of any site where the booked capacity exceeds that as stated in the NExA, in line with the legal text for approved UNC701, then the Central Data Service Provider (CDSP) will do so. Without the intervention by the CDSP in these cases, the Shipper would continue to remain in breach of Code without any confirmed time frame for rectification of the breach.

## **The modification proposal**

On 14 September 2023, MUA Group (the Proposer) raised IGT UNC169: *'Aligning the Capacity requirements for NExA Supply Points in the UNC with Capacity requirements for LDZ CSEP Ancillary Agreement (LCAA) Supply Points under the IGT UNC (i.e., bringing Code in line with UNC0701 and UNC0853)'*. IGT UNC169 aims to ensure that the capacity arrangements are the same for Daily Metered (DM) sites on Independent Gas Transporter (IGT) networks as they are for GDNs under the UNC. In the case of the IGT networks, the DM sites impacted will be

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<sup>5</sup> For Daily Metered Supply Points the PMSOQ was either 2 times the prevailing SOQ or 16 times the SHQ, whichever was lesser, before UNC701 was approved.

<sup>6</sup> <https://www.ofgem.gov.uk/publications/unc701-aligning-capacity-booking-under-unc-and-arrangements-set-out-relevant-nexas-decision>

<sup>7</sup> The FMR on UNC701 highlighted that any application for increase in capacity that exceeds the PMSOQ will create a Supply Point Nomination referral to the relevant gas transporter, in line with the process in the UNC Transportation Principal Document.

<sup>8</sup> <https://www.gasgovernance.co.uk/0853>

<sup>9</sup> The self-governance modification proposal and criteria are defined in UNC Modification Rules 2.1.

those that have a LDZ CSEP Ancillary Agreement (LCAA)<sup>10</sup> with a GDN, Shipper or IGT. The modification will ensure that the maximum allowable capacity in the LCAA is not exceeded without a referral to the IGT, and it will allow the CDSP to reduce the capacity of a site where booked capacity exceeds that of the LCAA.

### **IGT UNC Panel<sup>11</sup> recommendation**

At the IGT UNC Panel meeting on 27 October 2023<sup>12</sup>, the IGT UNC Panel unanimously considered that IGT UNC169 would better facilitate the IGT UNC objectives and the Panel therefore recommended its approval.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 27 October 2023. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR<sup>13</sup>. We have concluded that:

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

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<sup>10</sup> In the case of an IGT connection into a gas transportation network for a single supply point (SSP) consumer by means of a use of a Connection System Exit Point (CSEP) and where that SSP CSEP is under a NExA between the gas transporter and the IGT there is a reciprocal LCAA to be enforced, as required in Section E Clause 2.2.2(a) of the UNC Independent Gas Transporter Arrangements Document.

<sup>11</sup> The IGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the IGT UNC Modification Rules.

<sup>12</sup> <https://www.igt-unc.co.uk/27th-october-2023/>

<sup>13</sup> IGT UNC modification proposals, modification reports and representations can be viewed on the IGT UNC website at <http://www.igt-unc.co.uk/>

<sup>14</sup> As set out in Standard Condition 9 of the Gas Transporters Licence, available at:

<https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

<sup>15</sup> 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.

## Reasons for our decision

We consider this modification proposal will better facilitate IGT UNC Relevant Objectives (Relevant Objectives) (a), (b) and (f), and will have neutral impact on Relevant Objectives (c) and (d). We also consider that this modification proposal will have neutral impact on the other Relevant Objectives.

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

The Proposer assessed this modification as having a positive impact under Relevant Objectives (a), (b) and (c), as *"Ensuring that where a LDZ CSEP Ancillary Agreement exists, the booked capacity is not in excess of the values in the LDZ CSEP Ancillary Agreement helps protect the integrity of each IGT (and upstream Transporters) pipeline on sites that have a single MPRN on an IGT CSEP."*<sup>16</sup> In the Panel Discussion, the Panel Members agreed that IGT UNC169 would have a positive impact on Relevant Objective (a).

We agree with the Proposer and Panel Members that IGT UNC169 has a positive impact on Relevant Objective (a). An LCAA is a contract between the end user and IGT, and details an end user's obligations and rules when offtaking gas from an IGT, including its maximum allowable capacity. Under the current IGT UNC arrangements, there is no process to ensure that the maximum allowable capacity in LCAA and that allowed by the governance of the IGT UNC (which is the agreement between the relevant Shipper and the relevant IGT) are aligned.

The impact of this is that Shippers who supply gas to IGT sites with an LCAA may accidentally breach the maximum allowable capacity as defined by the LCAA as the Shipper is not a party to that agreement. Furthermore, an end user may offtake more gas from the network than the network is able to support and could cause a deficit of gas on the distribution network affecting all customers connected to that network.

This modification aims to avoid these circumstances by introducing visibility of LCAAs in the CDSP database and by allowing the CDSP permission to enforce any LCAA arrangements to

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<sup>16</sup> FMR p.11

limit the offtake of a particular site. We consider this to have a positive impact on Relevant Objective (a), as it will avoid a circumstance where an end user may offtake more gas from the network than the network is able to support, which could cause a gas deficit. We view avoiding such a circumstance as having a positive impact on the efficient and economic operation of the pipeline. Also, allowing the CDSP to enforce the terms of the LCAA will ensure the continued efficient operation of the pipeline by ensuring no users breach their maximum allowable capacity as defined by their LCAA.

For the reasons stated above, we consider the proposal to have a positive impact on Relevant Objective (a).

***(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of the pipe-line system of one or more other relevant gas transporters***

In the workgroup discussion in September 2023, the Proposer advised that the reason for identifying a positive impact under Relevant Objective (b) was *"because of the situation where the IGT may have a NExA arrangement with the GDN and then there will be a reciprocal one that will be between the IGT and the Shippers etc... It is this co-ordination of the GDN requirements and where IGT's are connecting to them."*<sup>17</sup> A Workgroup member agreed with the Proposer's rationale, explaining that *"as where objective (A) is referring to the operation of a single Network, (B) is referring to the operation across all the Networks and the point of this is to balance the loads across both the IGT and the GDN's Network."* In their assessment of Relevant Objectives, Panel also identified a positive impact on Relevant Objective (b).

We agree with the Proposer's and Panel's assessment that the IGT UNC169 has a positive impact on Relevant Objective (b), as the modification seeks to implement the arrangements that UNC701 and UNC853S implemented into the UNC. By ensuring that the IGT UNC has the same arrangements as the UNC for the treatment of NExAs and NExA equivalents (LCAAs), we consider the modification will positively impact the coordinated efficient and economic operation of the pipeline system of one or more gas transporters. This is because the

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<sup>17</sup> FMR p.11

treatment of NExAs and LCAAs will be the same under both the GDNs and the IGTs, which will ensure coordination between the two types of gas transporter.

For the reasons stated above, we consider the proposal to have a positive impact on Relevant Objective (b).

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

The Proposer assessed the modification to have a positive impact under Relevant Objective (c), reiterating the same assessment for Relevant Objectives (a) and (b) that the modification *"helps protect the integrity of each IGT (and upstream Transporters) pipeline on sites that have a single MPRN on an IGT CSEP."*<sup>18</sup> The Proposer further added that *"The proposer is not specifically referring to one specific Licence obligation as the economical and efficient operation of the pipeline, is a principle throughout the Licence."*

We have communicated in previous UNC decisions<sup>19</sup> that to identify an impact under this objective, we encourage UNC modification proposers to indicate which licence obligation(s) the proposal impacts and how it improves the efficiency of the licensee discharging this obligation. We consider that by not indicating a specific licence obligation, the Proposer's assessment is inadequate in evidencing the impact of the modification on this objective. Especially as we consider that Relevant Objective (a) is designed to capture any impacts that relate to the "economical and efficient operation of the pipeline".

We therefore consider this proposal to have neutral impact on Relevant Objective (c).

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<sup>18</sup> FMR p.11

<sup>19</sup> UNC846: *Use of Entry Capacity Holdings at Easington at the Rough Storage ASEP in Winter 2023/2024* (p.5)  
<https://www.ofgem.gov.uk/publications/decision-unc846>

**(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between:**

**(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**

The Proposer considered IGT UNC169 to have a positive impact on this objective, *“As Shippers have this arrangement with NExA values being included within the CDSP data items under the UNC and for the CDSP to enforce any cap on the Capacity Booking window (ensuring Shippers to not breach the Code), this mod will allow for the same process for IGT Shippers and will not adversely affect their commercial nomination to take on nominated IGT sites that have a LDZ CSEP Ancillary Agreement in place.”*<sup>20</sup> In Workgroup discussion, the Proposer summarised that they had identified a positive impact for this objective *“due to IGT and Shipper customers potentially falling foul of UNC requirements and being treated differently from GDN customers if this Modification was to not go through.”*<sup>21</sup>

A Workgroup member questioned whether competition between relevant Shippers was being impacted, *“as in the scenario described the distinction is the Network i.e., the DN against the IGT resulting in a difference in treatment for similar sites.”*<sup>22</sup> The Proposer responded that *“if this Modification does not go through, Shippers might decide to not use IGT Networks because they know that they could accidentally fall foul of the Code.”*<sup>23</sup> A Workgroup member subsequently advised that *“Shippers charge in accordance with the nominated capacity so as long as that went through, what is on the bilateral agreement and its relevance, wouldn’t stop them supplying.”*<sup>24</sup> The Workgroup did not reach agreement in relation to Relevant Objective (d) being positively impacted, whilst Panel considered that the modification would have a neutral impact on Relevant Objective (d).

We consider that this modification creates a level playing field between IGT and GDN connected consumers, by ensuring that they have the same arrangements for their bilateral

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<sup>20</sup> FMR p.11

<sup>21</sup> FMR p.11

<sup>22</sup> FMR p.11

<sup>23</sup> FMR p.11

<sup>24</sup> FMR p.12

agreements (i.e. NExAs and LCAAs) under the UNC and the IGT UNC. Our view is that ensuring this equal treatment under both codes has a positive impact in terms of competition between end consumers. However, Relevant Objective (d) references “securing effective competition” between “Shippers, Suppliers and/or DN operators”. We agree with the Workgroup member who advised that Shippers will not be disincentivised in supplying IGT connected consumers, as Shippers charge in accordance with nominated capacity via the IGT UNC. The presence of an LCAA would not stop a Shipper supplying an IGT connected end user, and the lack of visibility of LCAAs for Shippers booking capacity is one of the reasons that this modification was raised; further supporting the view that an LCAA would not deter Shippers from supplying an IGT connected end consumer. Therefore, we do not consider that this modification would positively impact competition between Shippers by removing any disincentive for Shippers to supply IGT connected sites, as we do not consider that such a disincentive exists.

Overall, we consider this modification to have neutral impact on Relevant Objective (d).

***(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code***

The Proposer assessed a positive impact under this objective as the modification provides consistency throughout both the UNC and the IGT UNC. The Workgroup agreed with the Proposer’s view on this relevant objective being positively impacted and Panel also identified a positive impact under this objective.

We consider that this modification would implement the same arrangements that exist for NExAs under the UNC via the implementation of UNC701 and UNC853S, for LCAAs under the IGT UNC. Therefore, we view IGT UNC169 as having a positive impact on Relevant Objective (f) as it would ensure consistency between the UNC and IGT UNC in the treatment of NExAs and LCAAs, which would positively impact the efficiency in the implementation and administration of the two codes.

Overall, we consider this modification to have a positive impact on Relevant Objective (f).



## **Legal text**

When considering the legal text of this modification proposal, we noted that clause 5.2 in IGT UNC Part CII was incomplete. We raised a query to the Chair of the IGT UNC Panel who advised that the wrong legal text version was published on its website and attached to the email to us requesting an Authority decision. The Chair of the IGT UNC Panel confirmed that the legal drafting considered by the IGT UNC Panel contained the correct text and a complete clause 5.2 when they made their final recommendation. The Chair of the IGT UNC Panel submitted the correct version of the legal text to us and confirmed that it would be uploaded to the IGT UNC website. We confirm this has now occurred. Our decision on this modification proposal was made on the understanding that the correct version of the legal text was considered by the IGT UNC Panel. We urge the IGT UNC Code Administrator to exercise caution and make sure that the correct legal text is published and submitted to us for decision in future.

## **Decision notice**

In accordance with Standard Condition 9 of the Gas Transporter Licence, the Authority hereby directs that modification proposal IGT UNC169: *'Aligning the Capacity requirements for NExA Supply Points in the UNC with Capacity requirements for LDZ CSEP Ancillary Agreement (LCAA) Supply Points under the IGT UNC (i.e., bringing Code in line with UNC0701 and UNC0853)'* be made.

**William Duff**

**Head of Gas Systems and Operation**

Signed on behalf of the Authority and authorised for that purpose