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*Promoting choice and value for  
all gas and electricity customers*

Our Ref: UNC358  
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Date: 22 February 2011

Dear Bob,

**Decision on whether Modification Proposal UNC 358 'I&C Compensation for Emergency Interruption' ('UNC 358') is to be suspended pending the end of the 'Gas Security of Supply Significant Code Review' ('the Gas SCR') Phase.**

This letter sets out that the Authority, at this stage, does not intend to direct that UNC 358 is suspended pending the end of the 'Gas Security of Supply Significant Code Review' (Gas SCR) Phase.

As a consequence, Modification Proposal UNC 358 will follow the normal modification process unless we issue a direction to the contrary.

**Background**

On 11 January 2011, Ofgem launched the Gas SCR<sup>1</sup>. The key objectives of the review are to:

- minimise the likelihood of an emergency occurring by encouraging gas shippers and suppliers to take out sufficient "insurance";
- minimise the severity and duration of a gas emergency if one were ever declared, by sharpening incentives to attract and purchase imported gas; and
- appropriately compensate firm customers if they were to be interrupted following a gas emergency.

On 18 January 2011, Corona Energy Limited raised UNC 358<sup>2</sup> to introduce compensation for all firm customers that are interrupted in the case of "any unplanned [emergency] situation where the customer loses their supply". The proposer believes that while gas transporters have an obligation to operate the network safely, there are no significant commercial incentives on them to minimise the number and impact of interruptions on customers. For this reason, UNC 358 seeks to increase the level of compensation to 100% of the annual Local Distribution Zone ('LDZ') capacity charges per day of interruption if the customer is connected to a distribution network, and 100% of the annual NTS Exit capacity charge per day of interruption if the customer is connected to the transmission network.

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<sup>1</sup><http://www.ofgem.gov.uk/Markets/WhlMkts/CompandEff/GasSCR/Pages/GasSCR.aspx>

<sup>2</sup> Modification proposal UNC358 can be found at <http://gasgovernance.co.uk/0358>

Under paragraph 7.2.8 of the Uniform Network Code ('UNC') Modification Rules ('the Modification Rules'), the Modification Panel must send the Authority a written assessment<sup>3</sup> of whether a Modification Proposal made during a Significant Code Review (SCR) Phase is related to the SCR in question or not. Under paragraph 6.7 of the Modification Rules, where the Authority then directs that the Modification Proposal falls within the scope of the SCR, the proposal will be suspended during the SCR Phase unless we direct otherwise. On the contrary, if no such direction is given, the proposal will follow the usual Modification Procedures unless we direct otherwise.

### **Reasons for UNC 358 to follow the normal modification procedures.**

The Gas SCR focuses on improving incentives to avoid a national gas deficit emergency occurring, and to limit the duration of such an emergency should one ever occur. Ofgem's proposals include the introduction of compensation for consumers on firm contracts whose supplies are interrupted as a result of a commodity related shortage. We have proposed that this compensation could be set at the value of lost load ('VOLL') which is the value that consumers would be willing to pay to maintain their gas supply in the event of a pending interruption.

The Gas SCR consultation document that Ofgem published on 11 January 2011<sup>4</sup> ('the Gas SCR Consultation') clearly differentiates between the two types of gas supply emergency:

- Gas deficit emergency (GDE); and
- Critical transportation constraint emergency

As stated in paragraph 2.15 of the Gas SCR Consultation, "the focus of this review is a GDE, a situation arising as a result of a national shortage of gas"; it therefore focuses on putting the right incentive on shippers/suppliers to avoid a gas imbalance.

On the other hand, UNC 358 has the objective of increasing the incentive on the gas transporters to minimise the number and duration of unplanned network interruptions. It therefore tries to address the issue of customer interruption caused by network interruption.

We are aware that determining whether an interruption is the result of a commodity shortage or a network constraint could be difficult in some circumstances. We will take this into consideration as part of the Gas SCR.

### **Ofgem's decision**

We recognise that the two types of interruptions lead to customers being without a gas supply. On this basis, it could be argued that modification proposal UNC 358 is related to the Gas SCR. However, we do not think that the circumstances of interruption are the same and we consider that UNC358 is covering sufficiently different issues. Therefore, based on the information available to us at this stage, in our view it is appropriate that UNC 358 is not suspended and proceeds through the UNC Modification Procedures.

Nevertheless we acknowledge that both the Gas SCR and UNC 358 will consider the issue of compensation for gas customers which are interrupted and it will be important for this interaction to be monitored.

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<sup>3</sup> See minutes of Panel meeting 17 February 2011 at <http://gasgovernance.co.uk/panel/170211> which represent the Panel's written statement that Modification Proposal UNC 358 will follow the normal Modification Procedures.

<sup>4</sup> Please see paragraph 2.14 and 2.15 of the Consultation document 2/11 'Gas Security of Supply Significant Code Review Initial Consultation' which can be found at the following link <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Markets/WhIMkts/CompandEff/GasSCR>

Finally, please note that if, during the progress of UNC 358 in the Modification Procedures and the progress of the Gas SCR, it transpires that there is a stronger link between the two work areas, we will consider issuing a direction suspending the progress of UNC 358 until the end of the Gas SCR Phase.

Yours sincerely

**Mark Cox**  
**Associate Partner, Industry Codes and Licensing**