

**Uniform Network Code Modification Panel**

**Minutes of the 90<sup>th</sup> Meeting**

**Held on Thursday 21 January 2010**

**Members Present:**

**Transporter Representatives:** R Hewitt (National Grid NTS), C Warner (National Grid Distribution), J Ferguson (Northern Gas Networks), B Dohel (Scotia Gas Networks) and S Trivella (Wales & West Utilities)

**User Representatives:** C Wright (British Gas Trading), P Broom (GDFSuez), S Rouse (Statoil) and S Leedham (EDF Energy)

**Ofgem Representative:** J Boothe

**Consumer Representative:** A Hall

**Terminal Operators Representative:** R Monroe

**Joint Office:** T Davis (Chair) and J Bradley (Secretary)

**90.1 Note of any alternates attending meeting**

B Dohel for A Gibson (Scotia Gas Networks) and P Broom for A Bal (Shell)

**90.2 Record of Invitees to the meeting**

A Wright (Elexon), D Moore (Gas Forum) and G Evans (Waters Wye)

**90.3 Record of apologies for absence**

A Gibson and A Bal

**90.4 Receive report on status of Urgent Modification Proposals**

**Modification Proposal 0275 - Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage**

This Proposal was implemented on 21 December 2009. The Panel did not determine that the subject matter of this Urgent Modification should be subject to the review procedures with no votes cast in favour. J Boothe requested that the Transporters prepare a report on take-up, and C Warner said this was in hand.

**90.5 Consider New, Non-Urgent Modification Proposals**

**a) Modification Proposal 0279 - Improving the availability of meter read history and asset information**

Following a presentation by P Broom, during which he indicated that the Transporters have requested a Rough Order of Magnitude cost estimate, the Panel voted UNANIMOUSLY for this Proposal to be referred to the Distribution Workstream for consideration and development. The Workstream was requested to report to the 18 February 2010 Panel meeting.

**b) Modification Proposal 0281 - Prevention of "Timing Out" of Authority decisions on Modification Proposals**

Following a presentation by R Hewitt and an explanation by J Boothe on how implementation would fit in with Ofgem's approval process, particularly with User Pays Proposals, S Leedham suggested that the changes envisaged could be implemented without a Modification Proposal. R Hewitt referred to the desirability of aligning the main energy

Codes and noted the parallel proposal raised for the Balancing and Settlement Code (BSC). C Wright, A Hall and others suggested that, whilst the Proposal may be relatively clear, it would benefit from Workstream discussion. Discussion was then held on whether a joint Codes group could take forward consideration of both the UNC and BSC Proposals. It was recognised that the timetable established for the BSC process made this difficult, and also the different starting point under each Code meant there would be UNC specific issues. It was therefore agreed that, instead, the Elexon lead analyst would be invited to the Governance Workstream to provide updates on progress of the BSC Proposal. The Panel then voted UNANIMOUSLY for this Proposal to be referred to the Governance Workstream for consideration and development. The Workstream was requested to report to the 18 March 2010 Panel meeting.

#### **90.6 Consider New Proposals for Review**

##### **Review Proposal 0280 - Review of Demand Estimation UNC Section H Processes and Responsibilities**

Following a presentation from S Blakett (E.ON) and a discussion, the Panel voted UNANIMOUSLY for the Proposal to proceed to Review. The Review Group would be requested to submit Terms of Reference to the 18 February 2010 Panel meeting and provide its report to the 15 July 2010 Panel meeting. It was agreed that there would be no restrictions on membership of this Review Group.

#### **90.7 Consider Terms of Reference.**

##### **a) Modification Proposal 0270 - Aggregated Monthly Reconciliation for Smart Meters**

The Panel UNANIMOUSLY approved the Terms of Reference for this Development Work Group.

##### **b) Review Proposal 0272 - Mod 640 Validation Arrangements for when a Change of Shipper has occurred**

The Panel UNANIMOUSLY approved the Terms of Reference for this Review Group.

##### **c) Modification Proposal 0274 - Creation of a National Revenue Protection Service**

The Panel UNANIMOUSLY approved the Terms of Reference for this Development Work Group.

#### **90.8 Existing Modification Proposals for Reconsideration**

For the following Proposals J Boothe advised that responses to the Regulatory Impact Assessment were awaited. The Panel agreed UNANIMOUSLY to defer consideration.

##### **a) Proposal 0194 - Framework for correct apportionment of NDM error**

##### **b) Proposal 0194A - Framework for correct apportionment of LSP unidentified gas**

##### **c) Proposal 0228 - Correct Apportionment of NDM Error – Energy**

##### **d) Proposal 0228A - Correct Apportionment of NDM Error – Energy**

##### **e) Proposal 0229 - Mechanism for correct apportionment of unidentified gas**

For the following Proposals, J Boothe indicated that a decision was expected by March 2010. The Panel agreed UNANIMOUSLY to defer consideration.

**f) Proposal 0246 - Quarterly NTS Entry Capacity User Commitment**

**g) Proposal 0246A - Quarterly NTS Entry Capacity User Commitment**

**h) Proposal 0246B - Quarterly NTS Entry Capacity User Commitment**

With respect to the following Proposal, T Davis summarised the letter published by National Grid NTS, which identified that implementation of the Proposal would not be expected to impact CV Shrinkage over the period modelled. The Panel considered that further consultation was not necessary and therefore voted UNANIMOUSLY to defer consideration. J Boothe identified an expected decision date of 26 January 2010.

**i) Proposal 0266 - Amendment to Gas Quality NTS Entry Specifications for the North Morecambe Terminal**

#### **90.9 Consider Variation Requests**

None

#### **90.10 Consider Workstream Monthly Reports**

##### **Review Group Reports For Consideration**

**a) Review Group 0251 - Review of the Determination of Daily Calorific Values**

The Panel accepted UNANIMOUSLY the Review Group Report. T Davis identified that the various suggestions for actions would be sent to the appropriate bodies. J Boothe indicated that she would be discussing the way forward with the Ofgem members of this Review Group. T Davis responded to a request from C Wright that, if asked to do so, the Joint Office would circulate any details provided by the Transporters regarding meetings of the CV Liaison Group.

**b) 0264 - Review of Industry Arrangements to Accommodate Reduced Demand at DM Supply Points**

The Panel accepted UNANIMOUSLY the Review Group Report. C Warner indicated that a draft Modification Proposal to address the identified longer-term issue on an ongoing basis is under discussion at the Distribution Workstream.

#### **90.11 Consider Final Modification Reports**

**a) Modification Proposal 0231V - Changes to the Reasonable Endeavours Scheme to better incentivise the detection of Theft**

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

T Davis suggested that the Proposal was seeking to introduce a scheme into the UNC that would allow Shippers to recover the cost of theft investigations. Allowing cost recovery would reduce any financial disincentive to investigate theft. Therefore, by introducing an appropriate incentive scheme into the UNC, implementation would be expected to encourage theft investigation and consequently to reduce the level of unaccounted for gas as a result of theft. This would lead to better information about the correct allocation of energy amongst Shippers and support more accurate targeting of costs, and thus be expected to

facilitate the 'code relevant objective' of *"the securing of effective competition between relevant shippers and between relevant suppliers."*

Members recognised that, while the proposed incentive scheme would be entirely new within the UNC, the underlying intention was to migrate the bulk of an existing scheme that is established through the Gas transporter Licence. B Dohel, supported by the other Transporters, was concerned that the potential for inconsistency between the UNC scheme and the existing Licence based scheme could potentially create non-compliance with the Licence. This meant that, judging the UNC Modification Proposal on its own merits as a standalone Proposal, implementation could not be expected to facilitate the 'code relevant objective' of *"the efficient discharge of the licensee's obligations under this licence"*. C Wright, however, indicated that this double jeopardy issue is expected to be resolved through the Licence modification process and he would expect any Ofgem decision that the Proposal was to be implemented would take into account the desirability of coordinating this with the Licence modification process. J Boothe confirmed that she believed that this would be the case such that the double jeopardy issue was unlikely to arise in practice.

B Dohel drew attention to a concern raised by Ofgem during the development of the Proposal regarding the maximum amounts that could be claimed under the proposed scheme. She was not aware of any evidence that supported the proposed levels and consequently it was difficult to conclude that the proposed incentive scheme was necessarily appropriate. S Leedham indicated that EDF Energy had shared information with Ofgem on a confidential basis. This related to the costs, which EDF Energy incur as a result of theft investigation and supported the view that increasing the levels (relative to the Licence based scheme) to £1,000, while not an absolute figure that could categorically be correct, would be an appropriate order of magnitude.

Members accepted that the key issues were as identified – that incentivising theft detection was desirable; that duplication with a Licence based scheme was undesirable; and that it was difficult to categorically establish the absolute value at which to cap any claims under the proposed scheme.

The Panel then voted whether to recommend implementation with the following Members casting votes in favour: C Wright, P Broom (also proxy vote for A Bal), S Rouse and S Leedham. The Panel therefore did not determine to recommend implementation. A Hall indicated that, if able, she would have voted in favour of implementation. From a consumer perspective, she supported removal of any current disincentive to investigate theft.

**b) Modification Proposal 0268 - Change to the Provisions Determining the Earliest Reading Date Applicable within the AQ Review**

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. Considering whether new issues had been raised, T Davis noted that consultation responses indicated concern at the extremely short notice period suggested for implementation. This would initially require Shippers to implement manual processes to augment their automated AQ calculation methods and subsequently to update their systems. This created the potential to incur significantly higher costs than if more notice of implementation were to be provided. However, S Leedham stated that

this issue had been raised previously and the Panel therefore determined that no new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

To inform members about the implementation issue, S Leedham outlined the process followed by EDF Energy in validating xoserve's calculated AQs and the likely impact of Shippers' validation against different rules until they were able to implement a corresponding change in their own systems. S Leedham hoped that the costs would be small but had little information on likely costs at present and hence could not be confident that they would not be large.

Members recognised that implementation issues of this nature are normally considered by the UK Link Committee, and it was suggested that this route should be used to resolve issues surrounding an appropriate implementation date, should that prove necessary.

T Davis suggested that the Proposal was seeking to introduce a backstop beyond which any meter readings would be disregarded for the purpose of AQ calculations. As a result, these calculations would not look so far backwards and this would reduce the risk of AQ values being unduly weighted towards old consumption data that is less likely to reflect present usage patterns. By relying on more recent data, implementation of the Proposal would therefore be expected to produce more accurate AQs.

AQs support a range of processes, which would consequently be impacted by implementation of the Proposal. Hence implementation of the Proposal could be expected to:

- contribute to appropriate system planning and development, and therefore facilitate the 'code relevant objective' of *"the efficient discharge of the licensee's obligations under this licence"*.
- support accurate allocation of energy and costs between Shippers, and therefore facilitate the 'code relevant objective' of *"the securing of effective competition between relevant shippers and between relevant suppliers"*.

T Davis also suggested that these benefits should be balanced against an increased risk that some AQs would not be recalculated. Additionally a general presumption might be that using all available information should be preferable to disregarding some. Hence implementation of the Proposal had the potential to reduce the accuracy of AQs in some circumstances and this downside should be considered when assessing if implementation would be expected to further the Relevant Objectives. C Warner clarified that any downside was likely to impact very small numbers, with xoserve data indicating a few hundred sites could be impacted. Set against the benefits for all other sites, he regarded this as a minor drawback.

While members supported the summary, S Trivella added that, by introducing a rolling backstop rather than a fixed date, there would be no need to raise a fresh Proposal each year. Implementation of the Proposal could therefore be regarded as facilitating the 'code relevant objective' of *"the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code"*.

The Panel then voted UNANIMOUSLY to recommend implementation.

**c) Modification Proposal 0276 - Alternative User Pays approach to – UNC Modification Proposal 0263 - Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity**

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

T Davis suggested that the key difference between this Proposal and Modification Proposal 0263 was not the change that it was seeking to implement but only the way in which implementation was funded. He therefore suggested that the views expressed by Members with respect to 0263 should apply to this Proposal – views on whether the benefits exceed the costs, such that implementation is supported, should apply irrespective of the funding mechanism applied. He reminded Members that, with the exception of R Hewitt, they had considered that allowing assignment of part of capacity holdings would give confidence that required capacity could be made available to different Shippers, such that a potential barrier to switching or market activity would be removed. This would therefore facilitate the ‘code relevant objective’ of *“the securing of effective competition between relevant shippers”*. In contrast, R Hewitt considered that, in light of the costs of delivery, implementation of Proposal 0263 would not further the ‘code relevant objective’ of *“the efficient and economic operation the pipeline-system to which this licence relates”*.

Discussing this summary, C Wright suggested that Members should consider whether the User Pays element would undermine the benefit to the extent that the relevant objectives would not be facilitated. He also considered that the proposed cost allocation could be regarded as unfair and hence this aspect also might not be expected to facilitate the achievement of the relevant objectives.

S Leedham took the view that, given the values of energy involved, the benefits were likely to exceed the User Pays costs – adding that he felt that the funding mechanism did not impact this judgement. S Trivella supported this view, as did P Broom and S Rouse.

R Hewitt indicated that, due to the lack of any quantified benefits to set against the costs, it had not been demonstrated that implementation would be expected to facilitate the relevant objectives. However, he would be guided by Shipper votes – if Shippers are willing to fund the implementation costs, this would be evidence that the benefits are expected to exceed the costs.

The Panel then voted UNANIMOUSLY to recommend implementation of Proposal 0276.

The Panel then proceeded to a vote on, if one were implemented, which of the two Proposals 0276 and 0263, Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity, would better facilitate achievement of the Relevant Objectives. Of the nine Voting Members present, capable of casting ten votes, two votes (B Dohel and R Hewitt) were cast in favour of implementing Proposal 0276 in preference to Proposal 0263, whereas five votes (C Wright, P Broom (also proxy vote for A Bal), S Rouse and S Leedham) were cast in favour of implementing Proposal 0263 in preference to Proposal 0276. Therefore, the Panel determined that, of the two Proposals, implementation of 0263 would better facilitate achievement of the Relevant Objectives than 0276.

**d) Modification Proposal 0278 - Amendments to NTS Shrinkage Reporting Process**

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

T Davis identified that there were several aspects to the Proposal:

1. Changing when annual NTS shrinkage forecasts are provided, with the Proposal being to change the period from October to September to April to March. This would align the UNC with respect to publication of DN and NTS shrinkage forecasts. This alignment would be expected to assist Shippers when assessing shrinkage information, providing data from a consistent period, which could be assessed holistically. By facilitating a single assessment, implementation could therefore be expected to his would be consistent with facilitating achievement of the 'code relevant objective' of *"the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code"*.
2. Ceasing to provide each month a forecast of shrinkage factors on each day in the following month. R Hewitt clarified that the information is published on the National Grid website and does not appear to be being used, with very few visits to the relevant area being recorded. He therefore believed that removing the obligation to publish the data would reduce costs without any market detriment and hence implementation of this aspect would also be consistent with facilitating *"the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code"*.
3. Changing the day when assessed shrinkage is required to be published from the 15th to the 16th day of each month. This change would align the UNC with the Network Code Operations Reporting Manual and be more closely aligned with National Grid's supporting systems and processes. By supporting publication on the most cost effective date, implementation of this aspect of the Proposal would be consistent with facilitating *"the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code"*.
4. Amending the shrinkage factor calculation specified in the UNC in order to use daily rather than monthly average estimates of Own Use Gas volumes. Moving to daily estimates would be expected to produce more reliable data. By improving the quality of data provided to the market, and improving the accuracy of cost targeting on a daily basis, implementation of this aspect of the Proposal would be expected to facilitate the 'code relevant objective' of *"the securing of effective competition between relevant shippers"*.

The Panel then voted UNANIMOUSLY to recommend implementation.

**90.12 Receive report on status of Consents**

The following consents are with Ofgem for approval:

- a) C020 - Changes to Document References Contained Within the UNC
- b) C021 - Changes to Cross References Contained Within UNC TPD Section F – System Clearing, Balancing Charges and Neutrality

- c) C033 - Removal of a Redundant Cross Reference & Clarification of TPD Section K
- d) C034 - SC2004 Solutions - Industry Interfacing Project which is identifying system and process change requirements arising from the SOMSA project
- e) C035 - Reinsertion of references to address inadvertent omissions noted following C022

**90.13 Any Other Business**

T Davis referred to a suggestion from Ofgem at the Code Administrators Working Group that the proposed templates for modification documents be used in parallel for a Modification Proposal. This would provide a check regarding their suitability prior to formal adoption. It was agreed that Modification Proposal 0281, Prevention of "Timing Out" of Authority decisions on Modification Proposals would be tracked in parallel, with duplicate documentation being produced using the existing and proposed templates.

**90.14 Conclude Meeting and Agree Date of Next Meeting**

The Panel noted that the next meeting was planned for 10.00 on 18 February 2010.