

UNIFORM NETWORK CODE MODIFICATION PANEL

MINUTES OF THE 73rd MEETING

HELD ON THURSDAY 19 FEBRUARY 2009

Members Present:

Transporter Representatives: R Hewitt (National Grid NTS), B Dohel (Scotia Gas Networks), C Warner (National Grid Distribution), R Cameron-Higgs (Northern Gas Networks).and S Trivella (Wales & West Utilities),

User Representatives: A Barnes (BG Group), A Bal (Shell), M Young (British Gas Trading), R Fairholme (E.ON UK) and P Broom (GDF Suez)

Ofgem Representative(s):

J Dixon

Terminal Operators Representative:

R Monroe (Centrica Storage)

Joint Office:

T Davis (Chairman) and J Bradley (Secretary)

73.1 Note of any alternates attending meeting

B Dohel for A Gibson (Scotia Gas Networks) and M Young for C Wright (British Gas Trading).

73.2 Record of apologies for absence

A Gibson and C Wright.

73.3 Record invitees to meeting

C Temperley

73.4 Receive report on status of Urgent Modification Proposals

None

73.5 Consider New, Non-Urgent Modification Proposals

None

73.6 Consider New Proposals for Review

None

73.7 Consider Terms of Reference.

None

73.8 Existing Modification Proposals for Reconsideration

None

73.9 Consider Variation Requests

None

73.10 Consider Workstream Monthly Reports

Matters for Panel's Attention

a) Extensions Requested

- i) Proposal 0231: "Changes to the Reasonable Endeavours Scheme to better incentivise the detection of Theft"

Following a request, the Panel voted UNANIMOUSLY to extend the time for the Review Group to report until May 2009.

- ii) Proposal 0224: "Facilitating the use of AMR in the Daily Metered Elective Regime"

Following a request, the Panel voted UNANIMOUSLY to extend the time for the Review Group to report until May 2009.

- iii) Proposal 0221: "Review of Entry Capacity and the Appropriate Allocation of Financial Risk"

The Panel agreed to take this item as late business. Following a request, the Panel voted UNANIMOUSLY to extend the time for the Review Group to report until May 2009.

b) Review Group Reports for Consideration

Proposal 0208: "Information relating to Unallocated Energy"

The Panel discussed the Report and specifically the recommendation to write to Ofgem suggesting that a group be set-up to review the issues, which extend beyond the UNC. JD confirmed that there were certain issues for which an Ofgem review may be appropriate. The Distribution Workstream will monitor progress using the Topic process. The Panel voted UNANIMOUSLY to accept the Report, including the recommendation to write to Ofgem.

c) Development Work Group Reports for Consideration

None

73.11 Consider Final Modification Reports.

- a) Proposal 0213V: "Introduction of User Pays Governance Arrangements into the UNC"

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.

Members considered that, by providing clarity and a clear governance route for Proposals with user pays implications, implementation would further the UNC change process. Implementation would not be expected to run counter to any GT Licence 'code relevant objectives', and could be expected to further *"the securing of effective competition between relevant shippers"* and *"the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code"*. Members then voted UNANIMOUSLY to recommend implementation of the Proposal.

- b) Proposal 0228: "Correct Apportionment of NDM Error - Energy"

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.

M Young considered that, by increasing the incentives on Users to minimise measurement errors and theft, implementation could be expected to further the GT Licence 'code relevant objective' of "*the efficient and economic operation of the pipe-line system to which this licence relates*". Since he also considered that apportionment of energy would be an improvement on the current RbD mechanism, implementation would also be expected to further the GT Licence 'code relevant objective' of "*the securing of effective competition between relevant shippers*". A Bal and P Broom responded that implementation might lead to worse apportionment of energy, particularly disadvantaging Users whose portfolio is concentrated within the LSP market. A potential impact would be market withdrawal, increasing concentration. Hence implementation would not be expected to further the GT Licence 'code relevant objective' of "*the securing of effective competition between relevant shippers*". A Barnes felt that the evidence presented did not provide a convincing case as to whether or not cost apportionment would be improved.

Discussion then took place on whether a decision should be deferred pending development of Proposal 0229: "Mechanism for correct apportionment of unidentified gas", which, all agreed, should proceed as quickly as possible. JD confirmed that Ofgem intended to initiate a Regulatory Impact Assessment to consider all three Proposals, together with 0194 and 0194A. He did not believe that deferral for a month would delay Ofgem's progress. He also offered that, prior to the next Panel meeting, Ofgem could seek to identify any gaps which needed to be addressed within Proposals 0228 and 0228A.

The Panel then voted UNANIMOUSLY to defer consideration of this Proposal, with subsequent consideration reflecting feedback from Ofgem.

c) Proposal 0228A: "Correct Apportionment of NDM Error - Energy"

Reflecting discussion on Proposal 0228, the Panel voted UNANIMOUSLY to defer consideration of this Proposal.

d) Proposal 0233 "Changes to Outstanding Energy Balancing Indebtedness Calculation"

The Panel voted UNANIMOUSLY to defer consideration of this Proposal on the understanding that a Variation Request will be raised by the Proposer.

e) Proposal 0241 "Delaying the implementation of the Ad-hoc application principle of the enduring offtake arrangements"

The Panel agreed to take this item as late business. 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.

Members considered that, by deferring the ad hoc applications until the relevant methodologies and initial allocations were in place, implementation could be expected to further the GT Licence 'code relevant objective' of "*the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code*".

Members then voted UNANIMOUSLY to recommend implementation of the Proposal.

f) Proposal 0230: “Amendment to the QSEC and AMSEC Auction Timetables”

The Panel agreed to take this item as late business. Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. After discussion, they did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

R Hewitt considered that, by increasing the lead time for National Grid NTS to deliver incremental capacity, there would be a reduced risk of gas being stranded offshore, and therefore implementation could be expected to further the GT Licence ‘code relevant objective’ of *“the securing of effective competition between relevant shippers”*. M Young did not consider that implementation would increase the lead time as Users would be expected to book capacity from October instead of April. Members also identified that responses had expressed the concern that implementation, by introducing an eighteen month gap between auctions and removing the opportunity for Users to shape their capacity requirements in the AMSEC auctions to reflect maintenance plans, would not be expected to further this relevant objective.

Some Members considered that, by increasing the current overlap period for the same capacity to be sold at different prices, implementation would not be expected to further the GT Licence ‘code relevant objective’ of *“the efficient and economic operation of the pipe-line system to which this licence relates”*

The Panel then voted whether to recommend implementation of the Proposal, the following Members casting votes: R Hewitt and C Warner. Therefore the Modification Panel did not recommend implementation of the Proposal.

g) Proposal 0230AV: “Amendment to the QSEC and AMSEC Auction Timetables”

The Panel agreed to take this item as late business. Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. After discussion, they did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

In addition to the points discussed in relation to Proposal 0230, R Fairholme identified that implementation would lead to alignment of prices for the same capacity periods, which would be of benefit to Users. Implementation could, therefore, be expected to further the GT Licence ‘code relevant objective’ of *“the securing of effective competition between relevant shippers”*. M Young, however, responded that implementation, by reducing the transaction period for the AMSEC auction from twenty four to eighteen months, would not be expected to further this relevant objective.

The Panel then voted whether to recommend implementation of the Proposal, the following Members casting votes: R Hewitt, C Warner, S Trivella, A Bal and R Fairholme. Therefore the Modification Panel did not recommend implementation of the Proposal.

The Panel then proceeded to a vote on, if one were implemented, which of the two Proposals would better facilitate achievement of the Relevant

Objectives. Of the ten Voting Members present, capable of casting ten votes, two votes (R Hewitt and C Warner) were cast in favour of implementing Proposal 0230 in preference to Proposal 0230AV, whereas five votes (A Barnes, A Bal, M Young, R Fairholme and S Trivella) were cast in favour of implementing Proposal 023AV in preference to Proposal 0230. Therefore, the Panel determined that, of the two Proposals, implementation of 0230AV would better facilitate achievement of the Relevant Objectives than 0230.

73.12 Receive report on status of Consents.

The following consents are with Ofgem for approval:

C020: "Changes to Document References Contained Within the UNC"

C021: "Changes to Cross References Contained Within UNC TPD Section F – System Clearing, Balancing Charges and Neutrality"

C026: "Revision to the reference in TPD Section X4.1"

73.13 Any Other Business

.R Street on behalf of Corona Energy raised consumer concerns on the lack of opportunity to raise changes to their SOQ between AQ reviews outside the annual window. This is particularly important for consumers who are reducing their scale of operations due to the economic recession. He gave notice of an intention to raise a Proposal to address this issue.

A Barnes will be leaving BG in April 2009 but, subject to support from other Shippers, would wish to complete his term as a Panel Member. T Davis indicated that A Barnes' membership would automatically continue and any replacement was a matter for the Gas Forum to decide.

Northern Gas Networks intend to appoint J Ferguson as a panel member since R Cameron Higgs will be leaving in March.

TD invited views on the draft Panel response to Ofgem's code governance review consultations. C Warner did not feel the Panel should suggest that Ofgem be given a right to raise Proposals. A Barnes responded that, if Major Policy Reviews were introduced, it was better for Ofgem to raise the Proposal than require another party to do it through its licence. It was agreed that the relevant sentence be deleted and an amendment be made to reflect the need for commitment for Ofgem to follow through Proposals with the industry.

It was agreed that an explicit statement be inserted that the Panel should continue to judge the Proposal against the Relevant Objectives – not against any objective Ofgem had set within a Major Policy Review.

It was agreed that the sub-title "Panel Constitution" was more appropriate than "Self Governance".

The "Code Administrator" section should emphasise the impartiality of the Joint Office, which was acknowledged by all Panel Members.

The letter, whilst acknowledging occasions where analysis is lacking, should also refer to the inevitability of this outcome.

It should be emphasised that current Panel Members seek to represent the views of small participants and the shipper election process gives all companies one vote irrespective of size, which favours smaller participants.

73.14 Conclude Meeting and Agree Date of Next Meeting:

The Panel noted that the next Panel meeting is due to be held at Elexon, 350 Euston Road, on 19 March 2009.