

**Draft Modification Report**  
**Alterations to shipper penalties for end user failure to interrupt**  
**Modification Reference Number 0196**  
**Version 1.0**

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

**1 The Modification Proposal**

The Uniform Network Code, Transportation Principle Document Section G, 6.9.6 to 6.9.9 states that if on a Users Portfolio the number of failures to interrupt exceeds 5 in any one gas year, then all the Interruptible Supply Points of which the User is the Registered User will be redesignated as Firm, save where the Firm Transportation Requirement would not be satisfied and in such cases only the revised Firm Transportation Charges would be applied. The code also states that the above will not apply where the User demonstrates to the transporters' reasonable satisfaction that the User had taken all reasonable steps to comply with the requirement to Interrupt and that the failure to Interrupt occurred despite the taking of such steps.

Whilst failure to Interrupt is extremely serious, the proposer believes that this sanction should be removed from the UNC for two principle reasons:

1. We believe that the consequences to the User of enforcing this section of the UNC are disproportionate. If there is a HSE issue with a particular site failing to interrupt, the GDNs have the right to physically isolate the Supply Point, which we fully support.
2. Under 6.9.9, we do not believe that there is enough clarity in the term "reasonable steps to comply with the requirement to Interrupt". Whilst the proposer believes that the operational procedures in place are to a level that would demonstrate "reasonable steps to comply with the requirement to Interrupt", Users cannot be confident that the Transporter will necessarily concur with their objection.

For the avoidance of doubt, the proposer believes that the sanction and penalty for the individual Supply Points that do fail to Interrupt should remain in place. The proposer also believes that it is correct that those sites failing to interrupt should become firm.

The proposer is proposing to remove Sections 6.9.6, 6.9.7 and 6.9.8, from the Transportation Principle Document Section G of the Network Code and any references to them. He is also proposing that the same sections should be removed from the UNC Transition Document Part IIC, which, as a result of the implementation of MOD 90, is where they will remain in force until October 2011.

**2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to facilitate the achievement of this objective.

***Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of***

- (i) the combined pipe-line system, and/ or***
- (ii) the pipe-line system of one or more other relevant gas transporters;***

Implementation would not be expected to facilitate the achievement of this objective.

***Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***

Implementation would not be expected to facilitate the achievement of this objective.

***Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:***

- (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;***

This Proposal would better facilitate the achievement of SSpCA11(d) of the Transporter's Licence by removing the "5 strikes rule" Users would not be disproportionately penalised for a failure by a customer to interrupt. Converting a User's entire portfolio to firm undermines a User's competitive position and therefore runs contrary to the Transporter's obligation to facilitate the securing of effective competition.

***Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;***

Implementation would not be expected to facilitate the achievement of this objective.

***Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;***

Implementation would not be expected to facilitate the achievement of this objective.

**3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

This does not affect the security of supply, the operation of the Total System nor industry fragmentation. Transporters are able to isolate customers which imperil system security through continued consumption of gas following the provision of an Interruption Notice.

**4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:**

**a) Implications for operation of the System:**

No implications for operation of the system have been identified.

**b) Development and capital cost and operating cost implications:**

There are no direct capital, development or operating costs on Transporters resulting from this proposal.

**c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

No additional cost recovery is proposed.

**d) Analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences have been identified.

**5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequences have been identified.

**6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

Minimal system implications are expected.

**7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

*Administrative and operational implications (including impact upon manual processes and procedures)*

Minimal implications have been identified.

***Development and capital cost and operating cost implications***

No such implications have been identified.

***Consequence for the level of contractual risk of Users***

The level of contractual risk for Users, albeit remote, would be reduced, but proportional.

**8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No direct implications have been identified.

**9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No direct consequences have been identified.

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

- Removes an unduly onerous risk from the Shipping/Supplier Community and ensure that competition is secured.
- Properly applies a penalty to the User for failing to secure interruption in the event that this is the case.
- Removes the uncertainty surrounding the need to justify that reasonable steps had been taken in the event that a customer had failed to interrupt.

**Disadvantages**

No disadvantages have been identified.

**11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

*Written Representations are now sought in respect of this Draft Report.*

**12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of**

**Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

**14 Programme for works required as a consequence of implementing the Modification Proposal**

No programme of works has been identified as a consequence of implementing the Modification Proposal.

**15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

Proposal could be implemented with immediate effect following direction from Ofgem.

**16 Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

**18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

**19 Text**

**Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.**

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**