

CODE MODIFICATION PROPOSAL No 0322V

**Code Governance Review: Inclusion of 'The Gas Transmission Transportation
Charging Methodology' and 'The Gas Transmission Connection Charging
Methodology' within the UNC**
Version 1.0

Date: 21/10/2010
Proposed Implementation Date: 31st December 2010
Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (*) when first used.

This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).

Background

In November 2007, Ofgem announced the Review of Industry Code Governance, which concluded at the end of March 2010 when Ofgem published their Final Proposals for the Code Governance Review (CGR). The Ofgem Final Proposals covered the following work strands:

- Significant Code Review and Self Governance proposals;
- Proposals on the governance of network charging methodologies;
- Proposed approach to environmental assessment within the code objectives ;
- Proposals on the role of code administrators and small participant and consumer initiatives; and
- The Code Administration Code of Practice (subset of the above code administrators proposals).

The licence modifications necessary to implement the Final Proposals for the Code Governance Review and the Code Administration Code of Practice were published on 3 June 2010 and become effective on the 31 December 2010.

This Modification Proposal* aims to implement the Code Governance Review Final Proposals with regards to the governance of the NTS Transportation and Connection Charging Methodologies.

Ofgem proposed to open up the network companies' charging methodologies

0322V: Code Governance Review: Inclusion of 'The Gas Transmission Transportation Charging Methodology' and 'The Gas Transmission Connection Charging Methodology' within the UNC

by giving network users* and other materially affected parties the right to raise proposals to modify those methodologies. This will be done by inserting charging methodologies into the relevant industry codes and utilising the existing code modifications procedures.

Ofgem summarised its final proposals as follows;

- Incorporating network charging methodologies into relevant industry codes will give Users the opportunity to propose change.
- Authority ability to designate a non-code party as a materially affected party.
- 25 day Key Performance Indicator for decisions (longer if doing Impact Assessment¹).
- Requirement to maintain charging forums.

Open governance on charging methodologies across all sectors should bring the merits of accessibility, transparency and accountability. The governance reform of the distribution connection methodologies (electricity and gas) is expected to be progressed outside of this CGR project.

The Ofgem proposal would subsume Charging Methodologies into existing codes. The advantage of this approach is that these codes already have robust governance arrangements, which encompass the relevant parties.

Ofgem also consider that as the majority of connectees to the gas National Transmission System (NTS) are either shippers, or have strong contractual relationship with a shipper, the gas Transmission connection charging methodology is more appropriately accommodated within the UNC.

Ofgem are cognisant of the impact charging methodology and charging changes have on the industry and has stated that it will ensure that decisions on any potential proposals will be made in a timely manner. Ofgem consider it appropriate to adopt the existing code decision making framework, which currently has a 25 working day key performance indicators (KPI), for charging methodology decisions to make the processes consistent and gain the benefits of an holistic consideration of code and charging modifications where appropriate.

Currently where the implementation of a modification is connected to a time related event the panel/industry have the option to progress the proposal via urgency procedures. Ofgem consider that these arrangements could also be applied to charging methodologies (subject to the code modification rules being suitably drafted).

This Modification Proposal* aims to implement the conclusions of the Code Governance Review Final Proposals in respect of the NTS Transportation and Connection Charging Methodologies, specifically in respect of the new

¹ Ofgem Regulatory Impact Assessment

and amended NTS Licence requirements contained in:

- Standard Special Condition A11 (6)(e) which requires the licensee to have prepared a uniform network code setting out the UNC charging methodologies;
- Standard Special Condition A5 (5) which details the 'relevant methodology objectives' which a relevant transportation charging methodology modification must better facilitate
- Standard Condition 4B (5) of the NTS Licence which details the 'relevant methodology objectives' which a relevant connection charging methodology modification must better facilitate
- Standard Special Condition A11 (9)(ab)(ii) which requires the modification procedures provide that any proposal to modify the UNC Charging Methodologies must permit compliance with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Gas Transporter Licences;
- Standard Special Condition A11 (9)(ac) which requires:
 - the regular convening of the charging methodology forum;
 - the provision by the licensee of information reasonably requested by a Materially Affected Party; and
- Standard Special Condition A11 (10)(ab) which states that a Modification Proposal in respect of a UNC Charging Methodology may only be made by a UNC signatory or a Materially Affected Party (being a person or class of persons designated by the Authority for this purpose).

Nature of the Proposal

To facilitate the delivery of the above new licence conditions specific to the NTS Gas Transporter Licences, it is proposed that:

- the prevailing NTS Transportation and Connection² Charging Methodologies (as at the date of implementation, if so directed) are incorporated within the Uniform Network Code; and
- the UNC Modification Rules* are amended to reflect that

² For the avoidance of doubt, this applies solely to the NTS Connection Charging Methodology. The governance of the Distribution Connection Methodologies is outside the scope of the CGR Final Proposals and this Proposal.

³ Chairman's Guidelines will be superseded by the Code Administration Code of Practice in the event of implementation of UNC Modification Proposal 0319.

- the NTS Transporter must convene meetings (not less frequently than every three months, unless there is no matter to discuss) of the charging methodology forum (as defined in Standard Special Condition A11 (24) of the Gas Transporter Licences) being the 'NTS Charging Methodology Forum'. It is proposed that this Forum shall be defined as a UNC Workstream (defined within the current UNC Modification Rules) other than that this Forum shall comprise of representatives of Materially Affected Parties, Users and Transporters
- This Forum will operate in accordance with the Chairman's Guidelines*³ however in order to adhere to the new NTS licence drafting may not be dissolved. This Forum will be convened for the general purposes of discussing the further development of the applicable Charging Methodologies (and other charging related matters by agreement) in accordance with its Terms of Reference (which group shall have no power or authority to bind any User or any Transporter); and
- any proposal to modify the UNC Charging Methodologies must not conflict with paragraphs 8, 9, 10 and 11 of Condition 4B of the Gas Transporter Licences.

To facilitate the delivery of the above new licence conditions common to both the DNO Gas Transporter Licences and the NTS Gas Transporter Licence, it is proposed that the UNC Modification Rules are amended to reflect that;

- insofar as reasonably practicable, the relevant Transporter, will provide information or assistance (for the purpose of preparing a proposal to modify a Charging Methodology in respect of its network) reasonably requested by a Materially Affected Party;
- a Modification Proposal in respect of a Charging Methodology may only be made by a UNC signatory or a Materially Affected Party (being a person or class of persons designated by the Authority for this purpose);
- that Proposer of a Modification Proposal in respect of a Charging Methodology state its opinion as to why it believes that the proposal does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Gas Transporter Licences;
- at initial discussion of a Modification Proposal in respect of a Charging Methodology, the Modification Panel consider whether the proposal conflicts with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Gas Transporter

Licences;

- that the Modification Report incorporate a view as to whether a Modification Proposal in respect of a Charging Methodology conflicts with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Gas Transporter Licences; and
- the wording in sub section (a) of the definition of "Relevant Objectives" within section 2.1 of the UNC Modification Rules alternatively refers to the relevant objectives in Standard Special Condition A11(24a).

The above six elements, generic to both DNO and NTS Gas Transporter Licences, are advocated by both this Proposal and Modification Proposal 0325. This enables each Proposal to be implemented in isolation if so directed.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The proposer believes that this Modification Proposal is sufficiently clear to proceed directly to consultation

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This Modification Proposal does not affect xoserve systems or procedures and therefore it is not affected by User Pays governance arrangements.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Not applicable.

c) Proposed charge(s) for application of Users Pays charges to Shippers

Not applicable.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

Not applicable.

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

As described above, this Proposal seeks to implement all requirements of the new licence conditions that relate to NTS Charging Methodologies and to this extent we believe that implementation would better facilitate the relevant objective of the efficient discharge of the licensee's obligations under its licence (Standard Special Condition A11 (1)(c)).

One of the key aims of the new licence conditions is to seek to ensure that the governance processes are more transparent and accessible, which was particularly seen as important for small participants and consumer groups. Given that at present the NTS charging methodologies are not subject to Code Governance (and therefore Shipper Users are not able to raise specific Modification Proposals to that Methodology) it may be argued that permitting such parties to do so may better facilitate the securing of effective competition between relevant shippers (Standard Special Condition A11 (1)(d)).

In respect of the aspects of this proposal relating to changes to the UNC Modification Rules, such changes seek to implement relevant new requirements of paragraphs 9 and 10 of Standard Special Condition A11 of the NTS Licence. We believe that implementation of this proposal would better facilitate the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code (Standard Special Condition A11 (1)(f)).

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

Not applicable.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

No such implications have been identified.

b) The development and capital cost and operating cost implications:

The level of impact on operational costs is dependant on the additional volume of Modification Proposals (related to the NTS transportation and connection charging methodologies) and associated governance activity that may transpire as a consequence of implementation of this Proposal. Accordingly it is unclear whether existing resource dedicated to management of governance arrangements will be sufficient.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Not applicable.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

The proposer believes that National Grid NTS's contractual risk would increase as a consequence of implementation in that they will no longer have sole control of change proposals to the transportation and connection charging methodologies which at present are not incorporated into the UNC.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

Not applicable.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

Not applicable.

b) The development and capital cost and operating cost implications

Not applicable.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

As Users currently do not have the ability to raise direct change proposals to the NTS Charging Methodologies, it could be argued that a User's contractual risk associated with Charging Methodologies over which it currently has no direct influence may be reduced.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

Those parties that can demonstrate to the Authority that they are a 'Materially Affected Party' (as per Standard Special Condition A11 (24) of the NTS Licence)

0322V: Code Governance Review: Inclusion of 'The Gas Transmission Transportation Charging Methodology' and 'The Gas Transmission Connection Charging Methodology' within the UNC

will be able to raise change proposals to the NTS transportation and connection Charging Methodologies.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

Implementation of the proposal would allow the new Licence obligation effective on 31 December 2010 to be met.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

The proposal would allow the new Licence obligations to be effective.

Disadvantages

Potentially increases risk and uncertainty in regard to the long term planning of a stable pricing regime.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

It is proposed that in the event of the appropriate direction from the Authority that this Proposal is implemented on 31 December 2010.

16 Comments on Suggested Text

17 Suggested Text

TPD

Insert text to create a new section within TPD to read as follows:

SECTION Y – CHARGING METHODOLOGIES

PART A - NTS CHARGING METHODOLOGIES

1. THE GAS TRANSMISSION TRANSPORTATION CHARGING METHODOLOGY

Insert Annex A - Gas Transmission Transportation Charging Methodology

2. THE GAS TRANSMISSION CONNECTION CHARGING METHODOLOGY

Insert Annex B - Gas Transmission Connection Charging Methodology

MODIFICATION RULES

Add new paragraph 1.4 to read as follows:

1.4 Materially Affected Party

The Transporters shall provide, to the extent that is reasonably practicable, information reasonably required by a Materially Affected Party in respect of a proposed modification to Section Y.

Add the following defined terms at paragraph 2.1:

"NTS Charging Methodology Forum": means a Workstream¹ comprised of representatives of Materially Affected Parties, Users and Transporters, chaired by a representative of the Transporters² and operating within the Chairman's Guidelines^{2,3}, which is convened for the general purposes of consideration and discussion of matters relating to Part A of Section Y or Modification Proposals in respect of Part A of Section Y in accordance with its Terms of Reference (which group shall have no power or authority to bind any Materially Affected Party, User or Transporter);

"Materially Affected Party": has the meaning given in Standard Special Condition

¹ 'Workstream' will be replaced by 'Workgroup' in the event of the implementation of UNC Modification Proposal 0319.

² If UNC Modification Proposal 0319 is implemented the reference to 'Transporters' will be-replaced by 'Code Administrator'.

³ If UNC Modification Proposal 0319 is implemented the reference to the 'Chairman's Guidelines' will be replaced by 'Code of Practice'.

A11(24) of the Transporter's Licence;

"Workstream":

(a) a group comprised of representatives of Users and Transporters chaired by a representative of the Transporters and operating within the Chairman's Guidelines, which is convened for the general purposes of consideration and discussion of matters relating to the Uniform Network Code, an Individual Network Code or a Modification Proposal in accordance with paragraph 7.4 in accordance with its Terms of Reference (which group shall have no power or authority to bind any User or any Transporter); or

(b) a NTS Charging Methodology Forum, in respect of a Modification Proposal which proposes a modification to Part A of Section Y.

Amend paragraph 2.1 to read as follows:

"Chairman's Guidelines"³⁴: a set of standing guidelines issued by the Transporters governing the conduct of meetings of the Modification Panel, Workstreams, Development Work Groups, NTS Charging Methodology Forum and Review Groups, as amended from time to time by Panel Majority;

"Relevant Objectives": ~~means:~~ has the meaning given in

(a) ~~the relevant objectives in~~ Standard Special Condition A11(124)(a) of the Transporter's Licence; ~~and~~

(c) ~~in relation to a proposed Modification of these Rules, the requirements in Standard Special Conditions A11(9) and (12) (to the extent that they do not conflict with the relevant objectives referred to in (a) above);~~

Amend paragraph 5.1.2(b) to read as follows:

Workstreams other than the NTS Charging Methodology Forum may be created or dissolved by Panel Majority.

Amend paragraph 6.1.1 to read as follows:

6.1.1. Without prejudice to paragraph 6.4 or paragraph 12.4 in respect of the Uniform Network Code may be made from time to time by:

(a) a Transporter; ~~and/or~~

(b) any User;

(c) in the case only of a Modification Proposal which proposes a modification to Section Y, a Proposer that is the Materially Affected

⁴ If UNC Modification Proposal 0319 is implemented this definition will be deleted.

Party;

and any Third Party Participant may make a Third Party Modification Proposal.

Amend paragraph 6.1.2 to read as follows:

6.1.2 Without prejudice to paragraph 6.4 or paragraph 12.4 a Modification Proposal in respect of an Individual Network Code may be made from time to time by:

- (a) a Relevant Transporter; and/or
- (b) any Relevant Shipper; and/or
- (c) in the case only of a Modification Proposal which proposes a modification to Section Y, a Proposer that is the Materially Affected Party.

Amend paragraph 9.4.1 to add a new sub-paragraph (u) as follows:

- (t) ...:or
- (u) where it is a Modification Proposal in respect of Part A of Section Y, state the view of the Modification Panel as to whether the Modification Proposal conflicts with:
 - (i) with paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or
 - (ii) paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence.

Add new paragraph 12.10 to read as follows:

12.10 NTS Charging Methodology Forum

The Transporters shall ensure the NTS Charging Methodology Forum meets on a regular basis, for which purpose the Secretary shall convene a meeting of such forum by notice to its members at least once every three (3) months unless there is no matter for the NTS Charging Methodology Forum to discuss.

GT SECTION C – INTERPRETATION

Amend paragraph 1 to read as follows:

"Transportation Statement": means the prevailing statement furnished by the Transporter to the Authority under Standard Special Condition A4 of the Transporter's Licence and in respect of which the methodology referred to in paragraph 5 of that condition is set out in TPD Section Y.

Code Concerned, sections and paragraphs

To be added

Uniform Network Code

Transportation Principal Document

Section(s)

Proposer's Representative

Debra Hawkin, National Grid NTS

Proposer

National Grid NTS

Annex A NTS Gas Transportation Charging Methodology

Note that Annex A NTS Gas Transportation Charging Methodology has been provided as a separate document and may be subject to change prior to the submission of the text of the Modification which will be prepared by the proposer pursuant to a request for such received from the Authority (pursuant to the UNC Modification Rules section 9.6.1(b)(ii).

Annex B NTS Gas Connection Charging Methodology

Note that Annex B NTS Gas Connection Charging Methodology has been provided as a separate document and may be subject to change prior to the submission of the text of the Modification which will be prepared by the proposer pursuant to a request for such received from the Authority (pursuant to the UNC Modification Rules section 9.6.1(b)(ii).

.