












UNC Request Workgroup Report		At what stage is this document in the process?
<div>UNC 0676R:</div> <div>Review of Gas Transporter Joint Office Arrangements</div>		<div>01Request</div> <div>02Workgroup Report</div> <div>03Final Modification Report</div>
<div>Purpose of Request:</div> <div>To request a review of the Uniform Network Code (UNC) General, Modification Rules and Joint Gas Transporter Governance arrangements for the Joint Office of Gas Transporters</div>		
	The Workgroup recommends that the Panel now consider this report.	
	High Impact: Transporters	
	Medium Impact: Shippers	
	Low Impact: None	

Contents		 Any questions?
1	Request Summary	3
2	Impacts and Costs	4
3	Terms of Reference	8
4	Modification(s)	9
5	Recommendation	26
6	Appendix – Scope Document	28
Timetable		 0121 288 2107
<p>This report will be presented to the Panel on 13 February 2020.</p> <p>The Workgroup recommends that the Panel consider this report and return the Request Modification to the workgroup for further assessment with a report to Panel in July 2020.</p>		<p>Proposer:</p> <p><b>Steve Mulinganie</b> <b>Gazprom</b></p>  <a href="mailto:steve.mullinganie@gazprom-energy.com">steve.mullinganie@gazprom-energy.com</a>  0799 097 2568
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## 1 Request Summary

### Why is the Request being made?

The current Joint Gas Transporter arrangements for the Joint Office of Gas Transporters (Joint Office) have been in place for some time and considering the recent fundamental market changes including but not limited to: -

1. The review of the Central Data Service Provider (Xoserve) Funding Governance & Ownership (FGO)
2. Smart and Advanced meter rollouts
3. Project Nexus
4. Faster and More Reliable Switching
5. Retail Energy Code (REC)
6. Supplier Hub

It would seem prudent to review the current Joint Office arrangements to ensure they remain fit for purpose.

The Joint Office which has been operating for a number of years and during that time the market has fundamentally changed, the Proposer believes it is prudent to undertake a review of the current arrangements to ensure they continue to be fit for purpose in this changing market.

If a review is not undertaken then the Joint Office may not be best placed to meet the requirements of all its customers.

### Scope

The Scope of the review should include but not be limited to:

1. Joint Gas Transporter Arrangements for the Joint Office;
2. UNC Modification Rules;
3. Wider UNC should the review warrant further consideration;
3. Data Services Contract (DSC) Arrangements.

### Resourcing

Undertaking a detailed review of the arrangements may necessitate the engagement of external independent support perhaps akin to the approach taken with the Funding, Governance & Oversight (FGO) review of Xoserve.

### Impacts & Costs

Review of Transporter and wider industry funding models for governance arrangements.

### Recommendations

Panel is requested to put in place a review of the current arrangements to ensure they continue to remain fit for purpose during the ongoing period of significant industry change.

## 2 Impacts and Costs

### Consideration of Wider Industry Impacts

The Request might have an impact on the developments being considered for the Retail Energy Code (REC).

This Request should consider any potential Cross Code impacts and in particular, Independent Gas Transporter (IGT) UNC governance.

Whilst being undertaken at a more strategic level it should be mindful of the joint BEIS/Ofgem Industry Code review.

### Impacts

Impact on Central Systems and Process	
Central System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>None identified</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>Improved arrangements will deliver both Administrative and operational benefits to Users</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>Marginal - there might be an impact should the funding and resourcing model change.</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>Improved arrangements will deliver both Administrative and operational benefits to Users</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>Marginal - there might be an impact should the funding and resourcing model change.</li> </ul>

Impact on Transporters	
Recovery of costs	<ul style="list-style-type: none"> <li>• Marginal - there might be an impact should the funding and resourcing model change.</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>• None identified.</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>• Marginal - there might be an impact should the funding and resourcing model change.</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>• Marginal - there might be an impact should the funding and resourcing model change.</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>• None identified.</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>• Material impact</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>• Minor impact</li> </ul>
General administration	<ul style="list-style-type: none"> <li>• Material impact</li> </ul>
DSC Committees	<ul style="list-style-type: none"> <li>• Minor impact</li> </ul>

Impact on Code	
Code section	Potential impact
	<ul style="list-style-type: none"> <li>• To be considered.</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	<ul style="list-style-type: none"> <li>• None identified.</li> </ul>
General	Potential Impact
Legal Text Guidance Document	<ul style="list-style-type: none"> <li>• Potential Impact.</li> </ul>
UNC Modification Proposals – Guidance for Proposers	<ul style="list-style-type: none"> <li>• Minor impact.</li> </ul>
Self Governance Guidance	<ul style="list-style-type: none"> <li>• Minor impact.</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
TPD	Potential Impact
Network Code Operations Reporting Manual (TPD V12)	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
UNC Data Dictionary	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
AQ Validation Rules (TPD V12)	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
AUGE Framework Document	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Customer Settlement Error Claims Process	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Demand Estimation Methodology	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Energy Balancing Credit Rules (TPD X2.1)	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Energy Settlement Performance Assurance Regime	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Guidelines to optimise the use of AQ amendment system capacity	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Guidelines for Sub-Deduct Arrangements (Prime and Sub-deduct Meter Points)	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
LDZ Shrinkage Adjustment Methodology	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Performance Assurance Report Register	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Shares Supply Meter Points Guide and Procedures	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Shipper Communications in Incidents of CO Poisoning, Gas Fire/Explosions and Local Gas Supply Emergency	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Standards of Service Query Management Operational Guidelines	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Network Code Validation Rules	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
	<ul style="list-style-type: none"> <li></li> </ul>
OAD	Potential Impact
Measurement Error Notification Guidelines	<ul style="list-style-type: none"> <li>None identified.</li> </ul>

Impact on UNC Related Documents and Other Referenced Documents	
(TPD V12)	
	<ul style="list-style-type: none"> <li></li> </ul>
EID	Potential Impact
Moffat Designated Arrangements	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
	<ul style="list-style-type: none"> <li></li> </ul>
IGTAD	Potential Impact
	<ul style="list-style-type: none"> <li>To be considered.</li> </ul>
DSC / CDSP	Potential Impact
Change Management Procedures	<ul style="list-style-type: none"> <li>To be considered.</li> </ul>
Contract Management Procedures	<ul style="list-style-type: none"> <li>To be considered.</li> </ul>
Credit Policy	<ul style="list-style-type: none"> <li>To be considered.</li> </ul>
Credit Rules	<ul style="list-style-type: none"> <li>To be considered.</li> </ul>
UK Link Manual	<ul style="list-style-type: none"> <li>To be considered.</li> </ul>

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Gas Transporter Licence	<ul style="list-style-type: none"> <li>Potential minor impact, subject to the wider scope of the review.</li> </ul>

Other Impacts	
Item impacted	Potential impact
Security of Supply	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Operation of the Total System	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Industry fragmentation	<ul style="list-style-type: none"> <li>None identified.</li> </ul>

Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties

- Potential minor impact.

### 3 Terms of Reference

#### Background

The current Joint Gas Transporter Arrangements for the Joint Office have been in place for some time and considering the recent fundamental market changes, including but not limited to: -

1. The review of the Central Data Service Provider (Xoserve) Funding Governance & Ownership (FGO)
2. Smart and Advanced meter rollouts
3. Project Nexus
4. Faster and More Reliable Switching
5. Retail Energy Code (REC)
6. Supplier Hub
7. Energy Code Review
8. Joint BEIS/Ofgem review of Industry Governance

It would seem prudent to review the current Joint Office Arrangements to ensure they remain fit for purpose.

The industry has over the years made a number of incremental changes to the arrangements e.g. introduction of guidelines for the production of Legal Text. However, the current arrangements that determine the Funding, Governance and Ownership (FGO) of the Joint Office limit the ability of the Joint Office to evolve to meet the challenges of a market subject to fundamental changes.

The Proposer has raised a number of areas for potential reform through the existing Governance process and these were directed to the Gas Transporters Joint Governance Arrangements Committee (JGAC) as the forum responsible for the Joint Office.

These included: -

1. Joint industry Ownership of the Joint Office e.g. limited company with Board
2. Open Procurement of Joint Office arrangements e.g. services
3. Funding model for Joint Office i.e. who pays for what
4. Amendment to the voting arrangements e.g. automatic abstention from voting where there is no direct constituency interest in the matter, and
5. Legal Text production e.g. centralised production of Legal Text

On 9<sup>th</sup> December 2018, an email setting out the JGAC's comments on the proposals was sent to the Proposer. The JGAC saw merit in considering the points raised and felt that this would be better dealt with via the formation of a UNC Code Review Group. The JGAC also noted:

*"Further, JGAC is also looking forward to contributing to the Joint BEIS/Ofgem Energy Code Review which was announced on the 26th November 2018. JGAC and the Joint Office will be fully participating in*



*the Review and we look forward to the forthcoming workshops and discussions. If a Request were to be raised under the present Modification Rules procedures, we believe that the discussions involved could then input into the Joint BEIS/Ofgem Energy Code Review”*

Accordingly, this Request seeks to provide that forum to enable such discussions to take place. This forum should take in to account other governance models, especially the Retail Energy Code (REC), which is designed to introduce best practice.

## Topics for Discussion

- Understanding the objective, including consideration and review of:
  - Joint Gas Transporter Governance Arrangements;
  - Current funding models;
  - Transporter Licence requirements;
  - UNC impacts;
  - DSC Impacts;
  - Potential impacts on IGT UNC.
- Assessment of alternative means to achieve objective
- Development of Solution (including business rules if appropriate)
- Assessment of potential impacts of the Request
- Assessment of implementation costs of any solution identified during the Request
- Assessment of Legal Text.

## Outputs

Produce a Workgroup Report for submission to the Modification Panel, containing the assessment and recommendations of the Workgroup including a draft modification(s) where appropriate.

## Composition of Workgroup

The Workgroup is open to any party that wishes to attend or participate.

A Workgroup meeting will be quorate provided at least two Transporter and two User representatives are present.

## Meeting Arrangements

Meetings will be administered by the Joint Office and conducted in accordance with the Code Administration Code of Practice.

## 4 Modification(s)

To be determined.

## 5 Workgroup Assessment

**A) The history behind the creation of the JO and understanding of Transporter Licence requirements with regards to UNC Code Administration** (to provide the background/context behind the current Joint Office governance arrangements).

- Standard Special Condition A12: Joint Office Governance Arrangements (page 88 to 91).

[Insert further detail]

## B) UNC Governance Matters (Modification Rules)

### Use of Panel Alternates

Modification 0656 has addressed these concerns around Alternates. This issue was not considered further by this review.

### UNC Voting arrangements

- Issues with current UNC Modification Panel Voting arrangements:
  - Concerns have been raised around Panel making decisions on certain matters – whether legal advice could be provided to assist with these decisions.

Panel Members currently vote on all Modifications, including those which would not directly affect their ‘constituency’ areas. The aim is to consider the impact of Modifications on industry as a whole.

Some Workgroup Participants believed that current UNC Modification Panel Voting could be enhanced by adoption of alternative voting approaches:

UNC Voting arrangements Options
1. Automatic abstention from voting where there is no direct constituency interest in the matter. DSC Change Committee voting has some constituency voting and this could be used wider.
2. All UNC parties vote but it is weighted based on throughput.
3. CACoP could also assist with identifying differences /similarities in Panel voting/change processes and further options for consideration.
4. Consider how REC as the newest Code manages this voting issue.

Conclusion January 2020: Workgroup Participants concluded that at this time there is no pressing need to address the current arrangements, noting that REC (deemed as the ‘best in class’ by Ofgem) will provide an interesting model over which a watching brief could be kept.

### Legal Text production

Cadent on behalf of the ENA provided the following information.

#### Introduction

- Transporters are (and always have been) responsible for producing legal text for UNC modifications.
- Relevant GT licence obligations – Standard Special Condition A11: Network Code and Uniform Network Code

- 6. The licensee shall, together with the other relevant gas transporters, prepare a document (the “uniform network code”).....
- 7. The licensee shall, together with the other relevant gas transporters, establish and operate procedures (“network code modification procedures”).....
- UNIFORM NETWORK CODE – MODIFICATION RULES
  - 9.6 Legal Text for Modification 9.6.1 Subject to paragraphs 6.2.1(q)(i) and 9.6.6, in relation to each Modification Proposal, the Transporters shall prepare the legal text of the Modification....

#### Outline of present arrangements

- Each GT produces legal text for its own UNC Modifications.
- Shipper UNC Modifications:
  - Transmission related Modifications, legal text undertaken by National Grid.
  - Rota arrangements – allocation based on size of Network e.g. Cadent allocated double that of SGN or SGN double that of W&WU or NGN.
  - No account taken of legal text extent or complexity during allocation.
- Each GT responsible for providing legal resource.
- Benefit of early engagement i.e. lawyers typically engaged early in Modification assessment process.
- GDN’s policy is normally to undertake work via internal legal resource.
- Dependent on complexity of Modification or availability of internal resource, lawyers may direct work to be outsourced to external resource.
- In general, preferred law firm is presently Dentons although not all GDNs have used them.

#### Need to set out the issues with the process for Legal Text production:

- xxx

The following approaches to Legal Text were considered:

Legal Text Production Options	Pros	Cons	Action required if to be delivered
1. No Change – Legal Text continues to be provided by GTs	<p>Funding (GTs historical spend levels) would need to be a major consideration and the aspiration would be for the service to be value for money/ efficient.</p> <p>Anecdotally it has been stated that this is cheaper than any changed circumstances. (Costs can be in house and therefore non-transparent)</p> <p>Some lawyers may not in general want to be involved in drafting of a Modification.</p>	<p>Some evidence of inconsistent drafting dependent on lawyer producing legal text.</p> <p>Approach to legal support and advice to Proposer in interpreting business rules may vary dependent on allocated lawyer.</p> <p>Speed and timeliness of legal text production may vary dependent on legal resource availability and other factors such as knowledge and experience.</p> <p>Shippers may feel they are dealing with lawyers ‘second hand’ whereas Transporters have direct access (albeit GTs do arrange ‘liaison calls’ with Proposers as required).</p> <p>Overall cost of text production not transparent and therefore difficult to quantify.</p> <p>Difficult to determine efficiency/effectiveness of process.</p>	No change
2. Legal Text administered by Joint Office or GTs via centralised production of Legal Text and this could be used wider. (preferred option for SM)	<p>Elimination of fragmented approach to legal text production.</p> <p>Consistency in drafting.</p> <p>Certainty of charging rates (although not overall cost).</p>	<p>GTs would need to set up a competitive tender for a UNC legal text service provider (cannot ‘gift’ to Dentons directly). Frequency of tendering requirement would need to be identified.</p> <p>High risk that appointed provider would initially be</p>	<p>JGAC could deliver a proposal as to how this can be achieved for debate.</p> <p>Other Parties could also</p>

Legal Text Production Options	Pros	Cons	Action required if to be delivered
	<p>Overall cost of legal text production more easily ascertained and quantifiable.</p> <p>Dedicated 'single point of contact' (JO resource implication).</p> <p>Code Manager / administrator or Shippers/ GTs could act as contact intermediary (between the relevant external legal organisation and the Modification Proposer) to ensure effective engagement.</p>	<p>unlikely to have knowledge and experience of UNC text production although knowledge would build over time.</p> <p>Successful applicant would be reliant on Proposer to advise/provide expertise on UNC regime and arrangements; i.e. text production would be 'mechanical' being a strict legal interpretation of the Modification solution and business rules.</p> <p>Process much more disciplined which may lead to inflexibility and extended assessment timescales.</p> <p>Much greater emphasis on precise accuracy of business rules – early engagement of lawyer unlikely to be cost effective.</p> <p>Lawyer likely to refer Modification back to Proposer if solution is in any way deficient or unclear, leading to process delay.</p> <p>Funding arrangements would need to be reviewed under such arrangements and may be necessary to modify GT Licence and Modification Rules.</p> <p>Governance and budgetary control over funding would need to be carefully thought out.</p> <p>Vulnerable to peaks in workload.</p>	<p>bring forward a proposal on this Option.</p>
<p>3. Centrally JO provided service with Legal Text provided via a contract with a third-party provider/s (such as</p>	<p>Highly experienced and knowledgeable lawyers, especially for UNC.</p>	<p>Expensive. Very high hourly rate.</p> <p>Reliant on 2 x specific individuals – long term level</p>	

Legal Text Production Options	Pros	Cons	Action required if to be delivered
Dentons)	<p>Offer insight and detailed advice on content of business rules as pre-requisite for text production.</p> <p>Able to interpret complex arrangement into legal text with a minimum of input from Proposer/s (albeit dependent on how well solution in Modification is defined).</p> <p>Able to provide explanatory pre-drafting papers.</p> <p>Consistent legal drafting.</p>	<p>of support uncertain.</p> <p>Would require an informed buyer and contract manager (Workgroup Participants favoured the JO having this role).</p> <p>Would require a tender event for a panel of firms.</p>	
<p>4. Centrally provided service with a mix of options 2 and 3</p> <p>Transporters provide Legal Text on certain type of Modifications, all managed through the code manager (JO). JO as Code Manager would be the informed buyer and would decide the appropriate route.</p>	<p>See Pros for Option 2 and 3.</p> <p>Gives procuring party flexibility and a route to cope with peaks in workload.</p>	<p>See Cons for Option 2 and 3.</p> <p>Cost of provision must be agreed.</p>	<p>Could be provided via service line items. Would depend on how Code Manager is set up.</p>
5. Improvements to the status quo			<p>Workgroup discussed actions to be carried out to explore short term implementation of some/all of these.</p>

Legal Text Production Options	Pros	Cons	Action required if to be delivered
			<i>To be continued!</i>

04 November 2019

Workgroup Participants agreed that the present arrangements had room for improvement.

22 January 2020

Workgroup Participants discussed the 5 options. Option 4 received some initial positive comments, but Workgroup Participants would need to see further analysis if a change were to be proposed.

Discussion of Option 5 - Improvements to the status quo – suggested by Cadent and discussed at January 2020 meeting:

**Action Ref 1102:** Gas Transporters to consider an appropriate proposal for Option 1 – improvement to the current process for improved legal text provision.

#### Proposals:

- Amend the Modification Template (Summary section) to require the proposer to state the section(s) of code impacted.
- Proposer to ensure the Solution section of the Modification Template only contains clearly defined business rules that will result in contractual changes to the UNC or associated information pertinent to the required changes.
- Action on the Workgroup to review/consider the relevant section(s) of code, prior to legal text drafting and write the business rules in a way that is consistent with the existing text. This is likely to reduce queries from the legal text provider to the proposer.
- For complex Modifications, Gas Transporters may procure the services of external legal text providers.

*Further discussion is required*

The ENA also highlighted the following for further consideration:

- Outcome of BEIS/Ofgem Code Governance review uncertain e.g. role of Code Manager?
- May be worth considering other industry codes approach to legal text production (e.g. electricity codes)?
- UNC potentially unique in its complexity (when compared to some industry codes e.g. SPAA or REC)?
- Cost of 'abortive' legal text for rejected or withdrawn UNC Modifications – expectations regarding legal access, etc. by parties would need to be balanced and realistic. High risk of effective cost control being compromised?
- Comparative cost/benefit exercise between present arrangements and centralised approach may be useful?
- Risk of pressure to produce legal text before business rules are finalised; would need 'gate keeper' role in Joint Office (JO) to manage this, which leads to issues with JO capacity to facilitate this effectively?
- Necessity for GT to continue 'oversight' of Legal Text production and content may temper potential benefits of centralisation?

## Legal Text Costs

It was agreed that the GTs and Transporters should consider what could be provided in relation to the Legal text costs; segregated by the level of expertise; junior lawyer, senior lawyer and paralegals, etc]. – Workgroup noted that provision of Legal Text is a multi-faceted task.

Features that could be included as part of any of the above options:

- To assist with this process, Modifications (ideally with a well-developed/clear solution) could be rated (easy, average and complex) from a legal text drafting perspective.
- In some cases, early legal advice and/or engagement could be beneficial to the development of the Modification.

*Insert action updates as they come in.*

## Critical Friend

Wales and West on behalf of the Energy Networks Association provided the following background information on the topic.

- **Code Administrators' Code of Practice. Principle 1: Code Administrators shall be critical friends.** A 'critical friend' is a Code Administrator who provides support to all with an interest in the Code Modification process, but paying particular attention to under-represented parties, small market participants and consumer representatives.
- **Guidance Document UNC Modification Proposals – Guidance for Proposers.** To avoid undue delays in the Workgroup phase, Panel expects that initial modification proposals will be sufficiently complete that they can anticipate the likely impact and Workgroup effort required such



that realistic assessment timeframes can be set. For smaller UNC parties, Panel will apply more latitude with respect to the level of detail they will accept in an initial proposal, however such parties are still expected to avail themselves of pre-modification support as described above.

- **UNIFORM NETWORK CODE – MODIFICATION RULES**

1.5 Code of Practice

1.5.1 The Code Administrator shall in conjunction with other code administrators, maintain, publish, review and (where appropriate) amend the Code of Practice.

1.5.2 Where the Code Administrator undertakes any obligation for the purposes of these Rules, the Code Administrator shall do so in compliance with the Code of Practice unless it conflicts with these Rules.

1.6.1 In carrying out its obligations including under these Rules and in compliance with the Code of Practice, the Code Administrator shall provide such assistance as a User (and in particular Small Participants) or Consumer Representatives may reasonably require, which shall include but not be limited to assistance in relation to:

- (a) the drafting of a Modification Proposal;
- (b) the provision of advice in relation to the operation and effect of the Uniform Network Code or an Individual Network Code;
- (c) the User's participation, involvement and representation in the Modification Procedures; and
- (d) access to information relating to a Modification Proposal, Modifications and the Modification Procedures.

6.2.2 Each Modification Proposal shall be given to the Secretary who shall ensure that the information required pursuant to the Code of Practice has been provided, and the form of the Modification is as specified in the Code of Practice, before accepting such Modification Proposal.

6.2.3 Where a Modification Proposal, does not comply with paragraph 6.2.2 the Secretary may reject such Modification Proposal.

7.2.3 (b) a Modification Proposal:

- (i) subject to paragraph 7.2.3(d), should proceed to Consultation in accordance with paragraph 7.3; or
- (ii) should be referred to a Workgroup for Workgroup Assessment in accordance with paragraph 7.5 (and the Modification Panel may determine the Terms of Reference for such work (including terms as to the identity of any third parties to be consulted) and the date upon which it requires the Workgroup to submit its Workgroup Report);
- (iii) should be deferred to a subsequent meeting of the Modification Panel for further discussion; or
- (iv) be implemented, subject to unanimous determination under 7.2.3(a)(ii) that Fast Track Self-Governance Criteria are satisfied and subject to Panel determining unanimously that the Modification Proposal be implemented; or
- (v) be referred back to the Proposer [by the Panel] for further development.

ENA Observations with current Critical Friend process:

- Quality of proposals should be the same for all, the question is how that level of quality is achieved
- Joint Office has a critical friend role (introduced as part of Code Governance Review 1 in 2010)
- Can only give assistance, cannot insist on changes
- In past this role may have been pushed to or beyond what Modification Rules state
- Panel has power to require refer the proposal back to the proposer but rarely used (0674 deferred)
- Panel can ask for Ofgem view for example on modifications that impact on licence obligations
- Pre-panel workgroup discussion is useful
- Use of reviews is useful and could be encouraged more
- For example, 0642R (retrospective adjustments) led to 0651 and 0646R (OAD) led to 0683S
- Perceived concern with reviews is that x months is spent in a review and then y months at workgroup with the modification, so people raise a modification in the hope the total duration is less than x + y
- Poorly drafted modifications mean that Workgroup discusses points that the Proposer should have resolve
- Some well drafted modifications will be withdrawn or rejected and that is part of the process

The following approaches were considered:

<b>Critical Friend Options</b>
1. No change
2. No Code changes but JO and Panel to encourage more use of reviews
3. AS IS + Code requirement to make pre-mod engagement compulsory
4. Enhanced Code Manager powers for JO with regards Critical Friend role. JO could require a minimum standard rather than offer advice, for example quality of justification for urgency.
5. Panel's powers introduced to require proposer to re-submit modification if not clear/concise or direct that a Request is more appropriate.

The Joint Office highlighted that the critical friend review often corrected language, inflammatory remarks and context in new Modifications and that 3 business days was allowed undertake the review.

The Joint Office also indicated that differing timelines occur for submission of a new Modification prior to discussion at Panel and that for a comprehensive review to take place, the new Modification should be submitted earlier if possible, to enable more time to evaluate the content of the Modification. It was also noted that Modifications are often better developed if they have been for pre-mod discussion as this

allows the Joint Office time and opportunity to work with the Proposer and for industry input. A complex Modification submitted without warning on the new modification deadline is difficult to review well in the time allowed.

Workgroup participants highlighted that Proposers were not always willing to submit the new Modification earlier than the deadline, to prevent alternative Modifications from being raised. The Joint Office indicated that they keep discussions on new Modifications confidential if that is what the Proposer would prefer.

In conclusion, workgroup participants proposed that further education (in line with option 2) was the best option as this would improve transparency of the independent process deployed by the Joint Office. The Joint Office agreed to further investigate the content of the existing Critical Friend process and look to add further detail and guidance.

## Pre-mod engagement

04 November 2019 For Option 3 above, Workgroup developed the following process to improve pre modification engagement.

- Takes place after initial Joint Office conversation (i.e. is different to critical friend)
- Must go to at least 1 appropriate Workgroup meeting for industry discussion, Joint Office facilitates this
  - Proposer should present a presentation similar to that suggested to introduce to panel, to the Workgroup,
  - Proposer to take on comments as appropriate
- Proposer to submit draft modification for Joint Office critical friend (note new Modification deadline)
- Then further Joint Office critical friend 3 days
- Then put the resulting Modification before panel.

Joint Office could input to Panel on the outcome of each Modification's critical friend process – this could be deemed subjective/controversial. It may be better to group these and have an annual lessons learnt.

## Late Papers

The ability to reject late items was considered to be the issue for Panel, with Panel being held up as the lead in terms of how other Workgroups/Committees handle late papers.

Panel could develop a stronger stance in rejecting late papers. Though this could be construed as being restrictive.

SM suggested 2 Panel meetings per month (alternating London/Solihull)

### 2 Panel meetings per month

Pros

- To improve efficiency of meeting and make it easier to get papers in on time
- Time between decisions reduces delay
- Would reduce delays/ improve attention to detail/governance at UNCC

- Split preparation in two, spreading this across the month.

#### Cons

- Attendance
- Cost to participants (travel cost etc.)
- Cost to Joint Office (facilitation etc.).

PG suggested face to face Panel meetings are more effective.

SM also suggested webinar-based Panels which could address attendance and cost cons stated above. Cost of webinar software has been cited previously.

PG suggested that UNCC could be held separately as a webinar, and this would give a shorter Panel. Any second Panel meeting could be held as a webinar unless it was required to be face to face.

In addition the timetable of Workgroup meetings could be adjusted.

UNCC could be held by t-con or webinar.

It was suggested the view of existing and incoming Panel Chairs could be sought.

Joint Office agreed to review timeline, location (esp. DWG) and order of all UNC meetings. Action on PG

*Insert action updates as they come in.*

## Potential impacts on IGT UNC

04 November 2019

Workgroup Participants discussed the option of the IGT UNC being merged into the UNC

It was noted that the Joint Office response to the BEIS/Ofgem Code governance review consultation included this as a recommendation.

*Insert action updates as they come in.*

## Who can raise a Modification?

Criteria would be required to distinguish which modifications were for administrative/housekeeping purposes. The Joint Office could be enabled to raise these modifications, note that this is part of what a Code Manager could do.

Currently individual sponsors are required for PAC Modifications. Workgroup might explore whether PAC could raise some Modifications relating to PAC improvements e.g. changes to PARR reports.

- CDSP could raise Modifications, particularly where these are Self Governance administrative or for housekeeping purposes only. It should be noted what is possible in other codes for consistency. For example adding a party to the Data Permissions Matrix (DPM)

- Joint Office could raise some Modifications whether these are self governance for administrative or housekeeping purposes only

### Changes to Joint Office Model

Changes to Joint Office Model could/would lead to changes being required to the Modification Rules to support the revised model and/or realise other opportunities/benefits. Licence changes may be required (Standard Special Conditions SSC).

## Alternative Modifications

After some helpful initial discussion within this 0676R Request Workgroup, the matter was taken up at Governance Workgroup and later taken to Panel. This has lead to a useful set of 5 questions to be used by Proposers, the Joint Office and Panel alike, to tease out the discussion around whether a Modification constitutes an Alternative or not. It should be counted as an early success of this Request Workgroup.

## UNC Governance Matters (services)

*[the Proposers initial list of services could be reviewed and explored by the group to identify views on services that could be adopted and add value (within the existing governance structure or a future structure). Discussion could also spark further ideas to be put forward and considered]*

This area is related to what could form part of a **Code Manager role** or a **commercial (model)** offering.

As part of this review the following services were explored as to how these could work from a UNC perspective:

- Performance assurance role for JO
- Data analysis provision/challenge by JO (is it robust, etc.).
- Value added services – Project Management, Independent Analysis, Options Papers, technical capability.
- New technology – website / online document access / online remote conference capability
- Stakeholder Engagement – Transporters, Shippers, iGT's, Xoserve, Customer Reps, Ofgem, Suppliers, MAM's and other Governance providers.

The following approaches were then evaluated:

UNC Governance Matters (services) Option	Pros	Cons	Proposal
1. No Change			

2. Code Manager role to do x, y and z			
3. Commercial (model) to provide z, x and z			

The Workgroup noted that Code Manager powers were likely to be introduced by BEIS/Ofgem but this may take some time to introduce. As a short term/interim initiative it was proposed the Joint Office should be able to raise self-governance Modifications for housekeeping type changes, and they felt that this could be sanctioned via a slight change to the existing arrangements and was consistent with the likely Code Manager powers that could come out of the energy codes review.

*[insert further detail]*

*Workgroup Participants are still awaiting the publication of the consultation responses from the BEIS/Ofgem Consultation.*

## Joint Office Governance Arrangements

In July 2019 the Joint Office provided the following cost information.

Year	Actual Spend
2018/19	£1,059,527
2017/18	£853,776
2016/17	£694,290
2015/16	£592,948
2014/15	£581,865
2013/14	£504,698

The costings include the Joint Offices resources, Independent Panel Chair, internal and external venues, travel costs and IS provision costs. The Joint Office budget is discussed on a quarterly basis with JGAC in order to make sure the Joint Office is adapting to the increased requests and requirements. Legal text is not part of the Joint Office budget.

The Joint Office also provided the following Operational update for the 12 month period 01/03/2018 - 01/04/2019 to put the above costs in to context. It was noted by the Workgroup that Joint Office workload has steadily increased in recent years to the current levels and Joint Office resources and associated costs have gradually risen to meet the increased demands.

WORK AREA	AMOUNT	Further information
Self-Governance Modifications	9	2 UIG 1 Transmission and Governance 1 Distribution and Transmission 5 Distribution
Urgent Modifications	14	13 classed as other and 1 classed as Distribution
Number of Modifications raised	18	1 other 4 UIG 1 Distribution 3 Transmission 1 Governance 8 NTSCMF
Requests raised by Workgroup	5	1 Other 1 Other and SPAA 1 Governance 1 NTSCMF 1 Transmission
Number of Workgroup Meetings	273 arranged and completed	
Non- workgroup meetings	120	Committees (Panel, UNCC, PAC, DSC x 3, EBCC, DESC and TWG, AUG, Offtake) and Transporter meetings (Shrinkage, IGTAD)

WORK AREA	AMOUNT	FURTHER INFORMATION
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Workgroup reporting extensions	33	Based on analysis of Workgroups that completed their final reports and that involved an extension at some point in the prescribed periods.
Number of consultations undertaken	19	<p>3 associated with Urgent Modifications</p> <p>10 Self Governance</p> <p>6 associated with normal Modifications</p>

Workgroup participants suggested that the Joint Office were good value for money and should publish an annual report each year so that the costings and performance metrics were in the public domain.

The Joint Office discussed with JGAC regarding the production of a Joint Office mid-year and annual report and determined that an Annual Report will be taken forward in 2020.

- Funding model for Joint Office
  1. Who pays for what and current costs (past 5 years?)
  2. What percentage of JO costs do Transporters pass through to Shippers?
  3. How does cost of the JO compare to other Governance Providers e.g. SPAA/REC etc.

### What percentage of JO costs do Transporters pass through to Shippers?

The Transporters confirmed that 100% of Allowed Revenue was passed through to Shippers.

In so far as Joint Office costs are accurately reflected in the Allowed Revenue determined at the start of each Price Control, then 100% of JO costs are passed through to Shippers. Some Workgroup Participants wished to ascertain whether actual costs exceed the costs forecasted.

Action: GTs to compare the assumption about JOINT OFFICE costs in GD1 allowances to the actual costs incurred over the price control period.

PG confirmed for the Joint Office that when budget changes have been required, they have been granted, after suitable budgetary scrutiny.

Some Workgroup Participants then asked whether the Joint Office costs once passed to Shippers are then further passed on. Other Workgroup Participants confirmed the recovery of this is subject to commercial decisions.



## How does cost of the JO compare to other Governance Providers e.g. SPAA/REC etc.

*Action: Ofgem (JD) cost of the JOINT OFFICE compared to other Governance Providers*

[Issues/constraints/gaps/enhancements could be identified, reviewed and explored by the group to provide views on potential more effective/efficient models.]

- Issues with current model
  - Is it agile enough to cope with significant industry developments? E.g. Modification 0621, Nexus, CSS, Smart Metering
  - In the role of a Code Manager, explore the relationship with CDSP (as Delivery Body) and DSC Committees (UNC Sub-committee). Independence is a key consideration.

### C) Other funding/governance models

*[Parties could share/identify options through their governance experience.]*

*The group could also consider any initial thoughts from the BEIS/Ofgem review (May 2019).*

*JGAC have also offered to share JOINT OFFICE strategy work on future funding models (June or July 2020) that would also be informed by the BEIS/Ofgem reviews]*

December 2019 JGAC considered the matter and asked for more time to consider the options.

At the JGAC meeting on 06 February where strategy will be discussed as part of one of its standing agenda items, an update will be formulated to bring to the February or March 2020 meeting.

Having considered the current arrangements (see section D) the following options were put forward:

Option	Pros	Cons	Proposal	Notes
1. AS IS – No Change				
2. Industry Ownership of the Joint Office e.g. limited company with Board				Funding? How does this fit with price control? Any changes would need Ofgem involvement to unpick the price control arrangements
3. Open Procurement of Joint Office				Any changes would need Ofgem involvement to

arrangements e.g. services				unpick the price control arrangements
4. Retail Energy Code (REC) Governance Arrangements – best practise that could be utilised in UNC.				Any changes would need Ofgem involvement to unpick the price control arrangements

## 6 Recommendation

### Scope

At the January 2019 UNC Panel the 0676R Workgroup were asked to evaluate if an independent expert is needed or not to undertake the review. As part of this work it was suggested that the scope (for UNC 0676R: Review of Gas Transporter Joint Office Arrangements) should be refined and then a test applied to confirm if the industry could deliver the changes required or if an independent expert would be beneficial (especially if it would require a wider industry change such as licence amendments, etc).

The refined scope and the test applied to confirm this UNC Request Workgroup could deliver a Workgroup Report that considers this scope, is contained in section 6 and this was approved by the March 2019 Panel.

### Conclusion

*[Insert an exec summary, including a recommendations summary table/list]*

In this report to the February 2020 Panel the Workgroup invites Panel to:

- consider this report and return the Request Modification to the workgroup for further assessment with a report to the July 2020 Panel.



## 7 Appendix – Scope Document

### 1. Scope

The following is a draft scope developed by the Workgroup:

**A) The history behind the creation of the JOINT OFFICE and understanding of Transporter Licence requirements with regards to UNC Code Administration** (to provide the background/context behind the current Joint Office governance arrangements).

- Standard Special Condition A12: Joint Office Governance Arrangements (page 88 to 91).

**B) UNC Governance Matters (Modification Rules)**

- Use of Panel Alternates - Mod 0656 has addressed these concerns around Alternates.
- Issues with current UNC Voting arrangements
  - Concerns around Panel making decisions on certain matters – whether legal advice could be provided to assist with these decisions
  - Current UNC Panel Voting could be enhanced by adoption of alternative voting approaches:
    - Automatic abstention from voting where there is no direct constituency interest in the matter. DSC Change Committee voting has some constituency voting and this could be used wider.
    - All UNC parties vote but it is weighted based on throughput.
    - CACoP could also assist with identifying differences/similarities in Panel voting/change processes and further options for consideration.
- Issues with the process for Legal Text production and alternative approaches (e.g. administered by Joint Office via centralised production of Legal Text or a contract with a third-party provider/s (or a mix of the two)).
  - Funding (GTs historical spend levels) would need to be a major consideration and the aspiration would be for the service to be value for money/ efficient.
  - To assist with this process, Modifications (ideally with a well-developed/clear solution) could be rated (easy, average and hard) from a legal text drafting perspective. In some cases, early legal advice and/or engagement could be beneficial to the development of the Mod.
- Issues with Critical Friend and how this could be improved (through pre-mod engagement and possibly new Code Manager powers). The Code Manager role could also be expanded to cover performance assurance and data analysis/challenge (is it robust, etc.).
- Changes to Joint Office Model could lead to changes being required to the Mod Rules to support the revised model and/or realise other opportunities/benefits.

**C) UNC Governance Matters (services)** - could form part of a Code Manager role or commercial (model) offering but as part of this review it could be useful to explore how these could work from a UNC perspective.

- Value added services – Project Management, Independent Analysis, Options Papers, technical capability.
- New technology – website / online document access / online remote conference capability
- Stakeholder Engagement – Transporters, Shippers, iGT's, Xoserve, Customer Reps, Ofgem, Suppliers, MAM's and other Governance providers.

#### **D) Joint Office Governance Arrangements**

- Funding model for Joint Office
  - Who pays for what and current costs (past 5 years?)
  - What percentage of Joint Office costs do Transporters pass through to Shippers?
  - How does cost of the Joint Office compare to other Governance Providers e.g. SPAA/REC etc.
- Issues with current model
  - Is it agile enough to cope with significant industry developments? E.g. Modification 0621, Nexus, CSS, Smart Metering
  - In the role of a Code Manager, explore the relationship with CDSP (as Delivery Body) and DSC Committees (UNC Sub-committee). Independence is a key consideration.

#### **E) Other funding/governance models and their pros and cons**

- Joint industry Ownership of the Joint Office e.g. limited company with Board
- Open Procurement of Joint Office arrangements e.g. services
- Retail Energy Code (REC) Governance Arrangements – best practise that could be utilised in UNC.

## **2. Test applied to confirm if the industry (UNC Request) could deliver the changes required**

<b>Aspect of the Review</b>	<b>Can it be assessed via a UNC Request or not?</b>
The history behind the creation of the JO and understanding of Transporter Licence requirements with regards to UNC Code Administration	Yes – information has been obtained and could be explored by the group to provide context for the review.
UNC Governance Matters (Modification Rules): <ul style="list-style-type: none"> <li>• Use of Panel Alternates</li> <li>• UNC Voting arrangements</li> </ul>	Yes – information could be obtained (alongside experiences from Transporters, Shippers, JO and Ofgem <sup>1</sup> ) and could be explored by the group to identify options and their pros and cons.  Other parties could also be asked to provide a

<sup>1</sup> Please note, this is subject to Ofgem confirmation in due course.

<ul style="list-style-type: none"> <li>• Legal Text production</li> <li>• Critical Friend</li> </ul>	view/input, such as Dentons, CACoP, SPAA/Gowlings, etc.
<p>UNC Governance Matters (services)</p> <p>A) Value added services</p> <p>B) New technology</p> <p>C) Stakeholder Engagement</p>	<p>Yes – the Proposers initial list of services could be reviewed and explored by the group to identify views on services that could be adopted and add value (within the existing governance structure or a future structure). Discussion could also spark further ideas to be put forward and considered.</p>
<p>Joint Office Governance Arrangements</p> <ul style="list-style-type: none"> <li>• Funding model for Joint Office</li> </ul>	<p>Yes – JGAC have confirmed that they are happy to for the JO to provide high level budget information (a figure per year) and a summary of the services provided.</p>
<p>Joint Office Governance Arrangements</p> <ul style="list-style-type: none"> <li>• Issues with current model</li> </ul>	<p>Yes – issues/constraints/gaps/enhancements could be identified, reviewed and explored by the group to provide views on potential more effective/efficient models.</p>
<p>Other funding/governance models and their pros and cons</p>	<p>Yes – parties could share/identify options through their governance experience. The group could also consider any initial thoughts from the BEIS/Ofgem review (May 2019).</p> <p>JGAC have also offered to share JO strategy work on future funding models (June or July) that would also be informed by the BEIS/Ofgem views.</p>

Note: It is recognised that an Independent Expert may still be required to conduct further work, and this requirement will be reviewed during the Workgroup process.