

**CODE MODIFICATION PROPOSAL No xxxx**  
**Implementation of Industry Codes Governance Review in UNC:**  
**DN Transportation Charging Methodology and Change Governance**  
**Version 0.5**

**Date:** 09/07/2010

**Proposed Implementation Date:** 1 November 2010

**Urgency:** Non Urgent

## **1 The Modification Proposal**

### **a) Nature and Purpose of this Proposal**

#### **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;
- Charging Methodologies;
- Environmental Assessment and Code Objectives ;
- 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 however, the Proposer aspires for the new governance arrangements to be in place for 1 November 2010.

This Modification Proposal aims to implement the conclusions of the Code Governance Review Final Proposals in respect of Charging Methodologies<sup>1</sup>, specifically in respect of the new Gas Transporter 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;

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<sup>1</sup>[http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR\\_Finalproposals\\_310310.pdf](http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR_Finalproposals_310310.pdf)  
pages 30 – 36 (inclusive)

- Standard Special Condition A5 (2) and A11 (9)(ab)(ii) which state that the licensee shall not make a change to its Charging Methodology unless it has complied with the requirements of the UNC Modification Rules;
- Standard Special Condition A5 (5) which details the ‘relevant methodology objectives which a relevant 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; and
  - 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).

### **Proposal**

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

- the prevailing Distribution Network Transportation Charging Methodologies<sup>2</sup> (as at the date of implementation, if so directed) are incorporated within the Uniform Network Code<sup>3</sup>; and
- the UNC Modification Rules are amended to reflect that
  - the Transporters must convene regular meetings of the charging methodology forum (as defined in Standard Special

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<sup>2</sup> For the avoidance of doubt, this applies solely to the DNO Transportation Charging Methodologies. The governance of the Distribution Connection Methodologies is outside the scope of the CGR Final Proposals and this Proposal.

<sup>3</sup> For information, Annex A details the Distribution Networks Transportation Charging Methodologies as at the date of submission of this Proposal. If the Authority directs that this Proposal be implemented, Annex A will be deemed to contain the prevailing Methodology as at the date of implementation.

Condition A11 (24) of the Gas Transporter Licences) being the 'DN Charging Methodology Forum' ;

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:

- the relevant Transporters provide information reasonably requested by a Materially Affected Party;
- 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);
- a change to a UNC Charging Methodology is not able to be made unless the requirements of the UNC Modification Rules are complied with;
- any proposal to modify a UNC Charging Methodology must not conflict 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 five elements generic to both DNO and NTS Gas Transporter Licences are advocated by both this Proposal and Modification Proposal [0xxx]. 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)**

It is not proposed that this proposal is subjected to Urgent procedures.

**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.**

Following the extensive industry debate and discussions undertaken in respect of the Review, the proposer believes that this Proposal is sufficiently developed in order for it to proceed to consultation.

**2 User Pays**

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

This Proposal is not classed as a User Pays Proposal.

**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**

No 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 in section 1, this Proposal seeks to implement all requirements of the new licence conditions that relate to Distribution Network 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 DN 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, as such changes seek to implement relevant new requirements of paragraphs 9 and 10 of Standard Special Condition A11 of the DN Licence (as per Standard Special Condition A11 (2)) 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**

No such impact has been identified.

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

**a) The implications for operation of the System:**

No such impact has 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 DNO 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:**

No additional cost recovery is proposed at present.

**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 a DNO's contractual risk would increase as a consequence of implementation in that they will no longer have sole control of change proposals to their respective 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)**

Implementation is not required to enable such compliance.

**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**

Minor changes to the Joint Office of Gas Transporters website may be required.

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

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

The proposer is not specifically aware of any such implications.

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

The proposer is not specifically aware of any such implications.

**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 DN 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 DN Licence) will be able to raise change proposals to DN Charging Methodologies.

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

This Proposal seeks to implement relevant regulatory obligations in the UNC.

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

**Advantages**

- provides greater transparency of the relevant DN Charging Methodologies.

**Disadvantages**

- potentially increases risk and uncertainty 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)**

No such representations have been received.

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

No such representations have been received.

**14 Any other matter the Proposer considers needs to be addressed**

No additional matters have been identified.

**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 1 November 2010.

**16 Comments on Suggested Text**

**17 Suggested Text**

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)**

**Proposer's Representative**

Chris Warner (National Grid Distribution)

**Proposer**

Chris Warner (National Grid Distribution)

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