

Modification Report
Code Governance Review: Approach to environmental assessments within the UNC
Modification Reference Number 0321V
Version 2.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification 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 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 environmental assessment that needs to be carried out regarding the impact on greenhouse gas emissions as part of UNC Panel* deliberations on whether to recommend acceptance or rejection of a Modification Proposal. The environmental assessment was advocated by Ofgem in their November 2008 consultation on ‘Environment and Code Objectives’.

In particular this Modification Proposal has been raised to amend the Uniform Network Code in line with Standard Licence Condition 9 (12 iv (bb)), and Standard Special Condition 11, 15(bb).

(bb) where the impact is likely to be material, the evaluation of the proposed modification in respect of the relevant objectives shall include an assessment of the quantifiable impact of the proposed modification on greenhouse gas emissions, to be conducted in accordance with any such

guidance (on the treatment of carbon costs and evaluation of greenhouse gas emissions) as may be issued by the Authority from time to time;

The Guidance (see Appendix 1) on the treatment of carbon costs under the current industry code objectives issued by the Authority states “the introduction of the EU Emissions Trading Scheme (ETS), amongst other policy schemes, has meant that a market value can be placed on the cost of greenhouse gas emissions including carbon dioxide. In addition, the Government also issued guidance on valuing carbon which can be used to assess environmental costs and benefits.”

In June 2008 guidance was provided by the Authority specifying that, where material, the value of any change in greenhouse gas emissions should be taken into account when assessing code modification proposals. However there was uncertainty surrounding the detail of this and it was not mandated as a requirement in the code governance process.

Following a consultation period, the guidance was revised. It is now considered that it is possible to take account of environmental costs and benefits in the same way that the various UNC, CUSC, BSC Panels and industry consider other economic costs and benefits when assessing a Modification Proposal against the relevant objectives governing efficient and economic network operation.

The Final Proposals stipulate that an evaluation of the quantifiable impact of greenhouse gas emissions and the treatment of carbon costs needs to be conducted when preparing and consulting on Modification Proposals, in accordance with the guidance issued by the Authority.

Nature of the Proposal

Where an assessment of greenhouse gas emissions has been undertaken, the proposer should refer to the guidance from Ofgem on the treatment of carbon costs under the current industry code objectives, which is included as an appendix to this proposal, and can also be found within Appendix 4 of the ‘Code Governance Review – Final Proposals’.

It is proposed that the UNC Modification Rules* are amended so that where the Proposer or the UNC Panel members (through a majority vote) considers that the impact is likely to be material, the evaluation of the proposed modification in respect of the relevant objectives and or its suitability to enter the Consultation Phase shall include an assessment of the quantifiable impact of the proposed modification on greenhouse gas emissions. This should be carried out in accordance with any relevant guidance that has been issued by the Authority. Details of any such assessment shall be included in the reports produced during the progression of the proposal.

It is proposed that if implemented the following transitional arrangements are used;

All modification proposals that have been allocated a number by the Joint Office at the time of implementation will continue on the arrangements prior to

implementation of this proposal, however from the date of implementation any new modifications will progress using the new arrangements.

Suggested Text

MODIFICATION RULES

Add new definitions to paragraph 2.1 to read as follows:

"Carbon Costs Guidance": the document published by the Authority entitled 'Guidance on the treatment of carbon costs under the current industry code objectives';

"Emissions": has the meaning given in section 97 of the Climate Change Act 2008;¹

"Greenhouse Gas": has the meaning given in section 24(1) of the Climate Change Act 2008 to the term 'targeted greenhouse gas';

Add a new paragraph 6.2.8 to read as follows:

6.2.8 Where in the opinion of the Proposer, the impact (if any) of the Modification proposed in a Modification Proposal on Greenhouse Gas Emissions is likely to be material, the Proposer shall assess the quantifiable impact of such Modification (if any) on Greenhouse Gas Emissions (in accordance with Carbon Costs Guidance) in setting out the basis upon which the Proposer considers that the Modification Proposal would better facilitate achievement of the Relevant Objectives under paragraph 6.2.1(c) and stating its preference under paragraph 6.2.1(h) as to whether the Modification Proposal should proceed to the Consultation Phase."

Amend paragraph 7.2.3(b)(ii) as follows:

- (ii) *should be deferred to a subsequent meeting of the Modification Panel for further discussion; ~~and~~*

Amend paragraph 7.2.3(c)(ii) as follows:

- (i) *request from the Authority a View on whether the proposed cost apportionment and User Pays Charges are appropriate and following receipt of such View circulate it to the next meeting of the Modification Panel-;and*

Add a new paragraph 7.2.3(d) as follows:

(d) the impact (if any) of the Modification proposed in a Modification Proposal on Greenhouse Gas Emissions is

¹ This is a defined term used in the Gas Act 1986.

likely to be material.

Add a new paragraph 7.2.9 to read as follows:

7.2.9 *"Where the Modification Panel makes a determination under paragraph 7.2.3(d), it shall assess the quantifiable impact of such Modification (if any) on Greenhouse Gas Emissions (in accordance with Carbon Costs Guidance) in determining whether the Modification Proposal should proceed to the Consultation Phase under paragraph 7.2.3(a)(iii).*

Amend paragraph 9.4.1(b) to read as follows:

... provide an analysis of whether, and if so the extent to which, the Modification would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives, such analysis to include, where in the opinion of the Proposer or the Modification Panel the impact (if any) of the Modification on Greenhouse Gas Emissions is likely to be material, an assessment of the quantifiable impact of the Modification on Greenhouse Gas Emissions (in accordance with Carbon Costs Guidance);"

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

No User Pays charges applicable.

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

No User Pays charges applicable to Shippers.

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

No charges applicable for inclusion in ACS.

3

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 better facilitate this relevant 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 better facilitate this relevant 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;

This Proposal is raised in accordance with paragraph 1c of Standard Special Condition A11 Network Code and Uniform Network Code. The Proposer feels that the Proposal better facilitates the efficient discharge by the licensee of the obligations imposed upon it following the Ofgem Code Governance Review, under paragraph 15(bb) of Standard Special Condition A11. Network Code and Uniform Network Code, of the Gas Transporters' Licence as provided below:

(bb) where the impact is likely to be material, the evaluation of the proposed modification in respect of the relevant objectives shall include an assessment of the quantifiable impact of the proposed modification on greenhouse gas emissions, to be conducted in accordance with any such guidance (on the treatment of carbon costs and evaluation of greenhouse gas emissions) as may be issued by the Authority from time to time;

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;***

Implementation would not be expected to better facilitate this relevant objective.

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 better facilitate this relevant 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;

Paragraph 1f of the Licence states that “so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;”.

Paragraph 2 of the Licence states that "In relation to a proposed modification of the network code modification procedures, a reference to the relevant objectives is a reference to the requirements in paragraphs 9 and 12 of this condition (to the extent that those requirements do not conflict with the objectives set out in paragraph 1)." Paragraph 9 of the Licence describes the procedures which must be included within the Modification Rules to allow amendments to the UNC to occur including but not limited to; the raising of proposals and alternates, providing publicity to a proposal and the consideration of any representations.

The Proposer considers that this Modification Proposal (which is seeking to implement an element of the Code Governance Review Final Proposals) will better facilitate paragraphs 1f and 9 by providing a number of administrative and implementation efficiencies:

- Reducing unnecessary barriers and red tape within the UNC;
 - Reducing or eliminating inefficiencies and delays associated with the existing processes which can potentially hamper the implementation of important Modification Proposals and can have direct negative impacts on competition, new entrants and ultimately customers.
 - Making existing governance processes more transparent and accessible, particularly important for small participants and consumer groups.
 - Simplifying the UNC change processes and increase consistency between industry codes. For instance there will be more common, user-friendly and accessible templates for raising Modification Proposals.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) Implications for operation of the System:

Not applicable.

b) Development and capital cost and operating cost implications:

Not applicable.

c) Extent to which it is appropriate to recover the costs, and proposal for the

most appropriate way to recover the costs:

Not applicable.

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

Not applicable.

6 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

7 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

Not applicable.

8 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)

Amendment to administration procedures required to capture assessments where necessary.

Development and capital cost and operating cost implications

There will be a cost for the environmental assessment required particularly if external expertise has to be employed.

Consequence for the level of contractual risk of Users

All Users would need to take into consideration the environmental assessment required when raising a Modification Proposal.

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

See above.

10 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

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

Advantages

The proposal would allow the new licence obligation effective on 31 December 2010 to be met.

The proposal will allow (where relevant and material) environmental costs and benefits to be fully considered by industry participants, UNC Panel members and the Authority in their assessment of the Modification Proposal.

Disadvantages

The amendment process may become extended to allow for the necessary environmental assessment to be carried out and captured in the report.

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

Organisation	0321
British Gas	Supports
EDF Energy	Supports
E.ON UK	Not in support
National Grid Distribution	Supports
National Grid NTS	Supports
Northern Gas Networks	Supports
RWE Npower	Supports
Scotia Gas Networks	Supports
ScottishPower	Supports
SSE	Supports
Wales & West Utilities	Supports

In summary, of the eleven representations received, ten support and one

opposed implementation of the Proposal.

E.ON UK fails to see how this proposal better facilitates the relevant objectives. In respect of *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*, disagreeing with the proposer it will simplify governance arrangements and reduce delays. For example, it is not clear exactly what the role of the Panel would be in respect of environmental assessments. This ambiguity in the role of the Panel could reduce transparency and add delay into the Modification Process.

National Grid NTS agree it is difficult to understand how the impacts of greenhouse gas emissions would be used on a regular basis, but supports this modification on the basis that the requirements need to be set out in the UNC for those occasions where it does need to be used.

RWE Npower is unconvinced that there are any benefits against Standard Special Condition 11.1(f) since this modification is actually introducing an additional process to be completed as part of the modification procedure.

Wales & West Utilities considers Paragraph 7.2.8 (in the consolidated text) states that the UNC Modification Panel shall assess the quantifiable impact of such Modification (if any) on Greenhouse Gas Emissions. Wales & West Utilities considers this point should clearly differentiate between the requirement to supply any initial quantification, and the separate role of the UNC Modification Panel which should assess the proposer's supplied impact.

13 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.

14 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.

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

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary

information systems changes and detailing any potentially retrospective impacts)

It is recommended that this modification be implemented on 31st December 2010, if this date has already past at the time of the Authority decision then it is recommended that it is implemented on the next working day after the decision.

17 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.

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

At the Modification Panel meeting held on 21 October 2010, Panel Members voted UNANIMOUSLY in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

The Panel chairman summarised that the Proposal seeks to introduce a requirement that where the Proposer or the UNC Panel members (through a majority vote) consider that the impact is likely to be material, the evaluation of the proposed modification in respect of the relevant objectives and or its suitability to enter the Consultation Phase shall include an assessment of the quantifiable impact of the proposed modification on greenhouse gas emissions. This should be carried out in accordance with any relevant guidance that has been issued by the Authority. By ensuring that relevant impacts are considered and consistently assessed, implementation would be expected to facilitate the relevant objective of efficient administration of the UNC.

Being a change to the Modification Rules, Members also recognised that implementation of the Proposal should be judged against Para 9 of Condition A12, and it was suggested that the same case could be made as for facilitating the efficient administration of the UNC.

The Proposal also includes transitional rules such that the new approach would only apply to Proposals raised subsequent to implementation of this Proposal. It was questioned how, if implementation facilitated the relevant objectives, it could be considered that not applying the approach to existing Proposals could be justified. The Proposer argued that having a clean cut off would ensure that each Proposal would follow a holistic process throughout its life cycle, and this would be consistent with efficient administration of the UNC.

19 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.

20 Text

MODIFICATION RULES

Add new definitions to paragraph 2.1 to read as follows:

"Carbon Costs Guidance": guidance published by the Authority from time to time on the treatment of carbon costs and the evaluation of Greenhouse Gas Emissions including the document entitled 'Guidance on the treatment of carbon costs under the current industry code objectives';

"Emissions": has the meaning given in section 97 of the Climate Change Act 2008;

"Greenhouse Gas": has the meaning given in section 24(1) of the Climate Change Act 2008 to the term 'targeted greenhouse gas';

Add a new paragraph 6.2.8 to read as follows:

6.2.8 Where in the opinion of the Proposer, the impact (if any) of the Modification proposed in a Modification Proposal on Greenhouse Gas Emissions is likely to be material, the Proposer shall assess the quantifiable impact of such Modification (if any) on Greenhouse Gas Emissions (in accordance with Carbon Costs Guidance) in setting out the basis upon which the Proposer considers that the Modification Proposal would better facilitate achievement of the Relevant Objectives under paragraph 6.2.1(c)."

Amend paragraph 7.2.3(a)(iii) as follows:

- (iii) subject to paragraph 7.2.3(d), should proceed to the Consultation Phase in accordance with paragraph 7.3;

Amend paragraph 7.2.3(b)(ii) as follows:

- (iii) should be deferred to a subsequent meeting of the Modification Panel for further discussion; ~~and~~

Amend paragraph 7.2.3(c)(ii) as follows:

- (ii) request from the Authority a View on whether the proposed cost apportionment and User Pays Charges are appropriate and following receipt of such View circulate it to the next meeting of the Modification Panel; ~~and~~

Add a new paragraph 7.2.3(d) as follows:

- (d) the impact (if any) of the Modification proposed in a Modification Proposal on Greenhouse Gas Emissions is likely to be material (after considering any assessment by the Proposer under paragraph 6.2.8 of the quantifiable impact of the Modification proposed in a Modification Proposal on Greenhouse Gas Emissions) and shall have regard to such determination (if any) in determining whether the Modification Proposal should proceed to the Consultation Phase under paragraph 7.2.3(a)(iii) (provided that where the Modification Panel determines the likely impact will be material and the Proposer provided no assessment in respect of such under paragraph 6.2.8 the Modification Proposal shall not proceed to the Consultation Phase).

Amend paragraph 9.4.1(b) to read as follows:

... provide an analysis of whether, and if so the extent to which, the Modification proposed in a Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives, such analysis to include, where in the opinion of either or both the Proposer or the Modification Panel the impact (if any) of such Modification on Greenhouse Gas Emissions is likely to be material, an assessment of the quantifiable impact of such Modification on Greenhouse Gas Emissions (in accordance with Carbon Costs Guidance);"

UNIFORM NETWORK CODE - TRANSITION DOCUMENT

Add the following to Part IV of the Transition Document if such text has not already been inserted as a result of a modification implemented pursuant to the Code Governance Review:

" PART IV - MODIFICATION RULES

6 Code Governance Review

6.1 The Modification Rules in force as at the date preceding the Code Governance Review Implementation Date and set out in the Appendix to this Part IV shall apply to Modification Proposals made before the Code Governance Review Implementation Date and in respect of which:

- (a) the Transporters have not submitted a Modification Report to the Authority; or
- (b) the Authority has not decided whether to direct that the relevant modification may be made (or as the case may be) consent to the relevant Modification

before the Code Governance Review Implementation Date.

6.2 In paragraph 6.1 "Code Governance Review Implementation Date" means 31 December 2010."

Add in the Modification Rules in force as at the date preceding the Code Governance Review Implementation Date as an Appendix to Part IV of the Transition Document.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters