

UNIFORM NETWORK CODE MODIFICATION PANEL

MINUTES OF THE 79th MEETING

HELD ON THURSDAY 21 MAY 2009

Members Present:

Transporter Representatives: M Watson (National Grid NTS), J Martin (Scotia Gas Networks), J Ferguson (Northern Gas Networks) and S Trivella (Wales & West Utilities),

User Representatives: A Barnes (Gazprom), A Bal (Shell), M Young (British Gas Trading), R Fairholme (E.ON UK) and P Broom (GDF Suez)

Terminal Operators Representative

R Monroe (Centrica Storage)

Ofgem Representative(s):

J Dixon and J Boothe

Joint Office:

T Davis (Chairman) and J Bradley (Secretary)

79.1 Note of any alternates attending meeting

M Watson for R Hewitt (National Grid NTS), J Martin for A Gibson (Scotia Gas Networks), S Trivella for C Warner (National Grid Distribution) and M Young for C Wright (British Gas Trading)

79.2 Record of apologies for absence

R Hewitt, A Gibson, C Warner and C Wright

79.3 Receive report on status of Urgent Modification Proposals

None

79.4 Consider New, Non-Urgent Modification Proposals

- a) Proposal 0250 "Introduction of the Code Contingency Guidelines Document"

Following a presentation from M Watson (National Grid NTS) and a discussion, the Panel voted UNANIMOUSLY for the Proposal to proceed to Consultation. They did not determine that legal text was required, with no votes cast in favour.

- b) Proposal 0253 "Facilitating a Supply Point Enquiry Service for Large Supply Points"

Following a presentation from M Young (British Gas Trading) and a discussion, the Panel voted UNANIMOUSLY for the Proposal to be referred to the Distribution Workstream.

79.5 Consider New Proposals for Review

- c) Review Proposal 0252: "Review of Network Operator Credit Arrangements"

Following a presentation from S Trivella (Wales & West Utilities) and a discussion, the Panel voted UNANIMOUSLY for the Proposal to proceed to Review. A report to the November 2009 Panel meeting was requested.

79.6 Consider Terms of Reference.

- d) Review Proposal 0251: "Review of the Determination of Daily Calorific Values"

The Terms of Reference prepared at the initial meeting of this Review Group were approved UNANIMOUSLY

- e) Review Proposal 0252: "Review of Network Operator Credit Arrangements"

It was agreed that Terms of Reference, for Panel approval, would be considered at the initial meeting. It was clarified that any outcome on Modification Proposals 0246/0246A and 0246B was not intended to prejudice the Review.

79.7 Existing Modification Proposals for Reconsideration

None

79.8 Consider Variation Requests

None

79.9 Consider Workstream Monthly Reports

Matters for Panel's Attention

Extensions Requested

Proposal 0231: "Changes to the Reasonable Endeavours Scheme to better incentivise the detection of Theft"

Following a request, the Panel voted UNANIMOUSLY to extend the time for the Distribution Workstream to report until August 2009.

Workstream Reports for Consideration

Proposal 0229: "Mechanism for Correct Apportionment of Unidentified Gas"

The Panel had previously agreed to consider this at short notice. Following discussion, the Panel voted UNANIMOUSLY for the Proposal to proceed to consultation (S Trivella clarified that he had no proxy vote to cast for C Warner on this issue). The Panel did not determine that legal text was required, with no votes cast in favour. The Panel recognised that the Final Modification Report will not be available when the agenda for the June Panel meeting is due to be finalised, and consequently agreed to consider making a recommendation at the June Panel Meeting at short notice.

79.10 Consider Final Modification Reports.

- a) Proposal 0209 "Rolling AQ"

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

In reviewing this Proposal, members considered the implications of implementing this Proposal as part of Project Nexus or UK Link as it stands. However, a decision has to be made on the merits of this Proposal as it stands and the Proposal states that the Proposer sees this as a Nexus related change. J Dixon indicated that further information on the costs and benefits of implementation would be desirable if Ofgem was to be in a position to make a positive decision. He undertook, if

consideration was deferred, to provide more details of the information that Ofgem would require to assist with making a decision.

The Panel then voted UNANIMOUSLY to defer consideration of this Proposal. It also voted UNANIMOUSLY to seek a view from Ofgem on whether this Proposal should proceed (S Trivella clarified that he had no proxy vote to cast for C Warner on this issue).

b) Proposal 0246: “Quarterly NTS Entry Capacity User Commitment”

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

Some members considered that, by incentivising Users to book NTS Entry Capacity only when required, implementation would be expected to improve the quality of signals provided regarding the demand for NTS Entry capacity. This could be expected to further the GT Licence ‘code relevant objective’ of *“the efficient discharge of the licensee’s obligations under this licence”*.

Some members considered that by reducing the exposure of Users as a whole to one or more Users failing to pay for their NTS Entry Capacity holdings, implementation could be expected to reduce risk and improve cost allocations, and so further the GT Licence ‘code relevant objective’ *“the securing of effective competition between relevant shippers”*. However, other members were concerned at the costs involved of obtaining security, which could exceed the benefits. It was also considered that competition may be reduced by requiring a project developer to provide security at an earlier stage than currently, which could impact on project viability since credit may not be available. Members were also concerned that competition may be reduced since regulatory uncertainty would be increased if a UNC Modification Proposal was implemented that applied retrospectively to existing NTS Entry Capacity holdings. These impacts would not be expected to further the GT Licence ‘code relevant objective’ *“the securing of effective competition between relevant shippers”*.

The Panel then voted whether to recommend implementation of the Proposal, with M Watson casting a vote in favour. Therefore, the Modification Panel did not recommend implementation of this Proposal.

c) Proposal 0246A: “Quarterly NTS Entry Capacity User Commitment”

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

Members considered that, the benefits of implementation were similar to those already identified for Proposal 0246, but recognised that, by retaining the rights of Users to provide security through a Parent Company Guarantee, the cost of security may be lower.

The Panel then voted whether to recommend implementation of the Proposal, the following members casting votes in favour: M Watson and R Fairholme. Therefore, the Modification Panel did not recommend implementation of this Proposal.

d) Proposal 0246B: “Quarterly NTS Entry Capacity User Commitment”

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

Members considered that, the benefits of implementation were similar to those already identified for Proposal 0246A, but recognised that by restricting the impact to future NTS Entry Capacity bookings, retrospection would be avoided and costs would be reduced. However, a concern was raised that treating existing and future capacity holdings differently could be regarded as discriminatory, which would not be consistent with facilitating either licence compliance or competition.

The Panel then voted whether to recommend implementation of the Proposal, the following Members casting votes in favour: J Martin, J Ferguson, S Trivella (also proxy vote for C Warner), A Barnes, A Bal, M Young, R Fairholme and P Broom. Therefore, the Modification Panel recommended implementation of this Proposal.

The Panel then proceeded to vote on which of the Modification Proposals would in the opinion of the Modification Panel better facilitate the achievement of the “code relevant objectives”.

M Watson considered that implementation of Proposal 0246 would better further the relevant objectives than the other two Proposals. No members considered that implementation of Proposal 0246A would better further the relevant objectives than the other two Proposals. The remaining Members considered that implementation of Proposal 0246 would better further the relevant objectives than the other two Proposals.

e) Proposal 0249: “Introduction of an Enduring Annual NTS Exit (Flat) Capacity Invitation Letter”

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

Members considered that, by making available Remaining Available NTS Exit (Flat) Capacity to the market, implementation could be expected to improve information and hence better facilitate the achievement of the GT Licence ‘code relevant objective’ *“the securing of effective competition between relevant shippers”*. This would in turn improve the signals available to National Grid NTS and so help facilitate economic and efficient investment, furthering the GT Licence ‘code relevant objective’ of *“the efficient discharge of the licensee’s obligations under this licence”*.

The Panel then voted UNANIMOUSLY to recommend implementation of the Proposal.

On behalf of Ofgem, J Dixon requested that text be prepared for this Proposal.

79.11 Receive report on status of Consents.

The following consents are with Ofgem for approval:

C020: “Changes to Document References Contained Within the UNC”

C021: “Changes to Cross References Contained Within UNC TPD Section F – System Clearing, Balancing Charges and Neutrality”

79.12 Any Other Business

- a) Response to Ofgem's Open Letter on Code Administrators Working Group Report.

A draft response had been placed on the Joint Office website. Amendments to the sections on legal text, the critical friend role, and alternative proposals were debated and agreed. Subject to final comments, the Joint Office will submit the response to Ofgem..

- b) The "Timing Out" of Code Modification Proposals

S Trivella and A Barnes expressed concerns regarding Ofgem's recent letter on this subject, which appeared to be based on arrangements which do not apply in the UNC context. J Dixon explained that Ofgem's proposals were aimed at improving flexibility when, for example, a policy decision was awaited from DECC, and Ofgem decisions might otherwise be timed out. Members recognised this but did not see why a licence amendment was required for the Gas Transporters' licences. J Dixon recognised that embodying requirements within licences was not ideal, but pointed out that Ofgem has no ability to propose changes to other documents. Ofgem would, however, welcome responses on the way forward.

- c) Rejection of Modification Proposal 0233V "Changes to Outstanding Energy Balancing Indebtedness Calculation"

J Dixon clarified that it was sympathetic to the intention of this Proposal but for a similar Proposal to be implemented, there was a need for greater clarity on the information to be taken into account and on the appeal mechanism. He also clarified also that there was no need for Review Group 0252 to report prior to any energy balancing credit related proposals being raised.

79.13 Conclude Meeting and Agree Date of Next Meeting:

S Leedham of EDF Energy identified that a demand estimation related Proposal was being prepared. Due to implementation timescales, he requested that an additional Panel meeting be arranged to consider the Proposal. It was agreed UNANIMOUSLY that the Panel would meet by Teleconference at 15.00 on 5 June 2009.

The Panel noted that the next full Panel meeting is due to be held at Elexon, 350 Euston Road, on 18 June 2009.