

Uniform Network Code Modification Panel

Minutes of the 95th Meeting

Held on Thursday 20 May 2010

Members Present:

Transporter Representatives: R Hewitt (National Grid NTS), C Warner (National Grid Distribution), B Dohel (Scotia Gas Networks), J Ferguson (Northern Gas Networks) and S Trivella (Wales & West Utilities)

User Representatives: C Wright (British Gas Trading), P Broom (GDFSuez), S Rouse (Statoil) and S Leedham (EDF Energy)

Consumer Representative: R Hall (Consumer Focus)

Terminal Operators Representative: R Monroe (Centrica Storage)

Ofgem Representative: J Dixon

Joint Office: T Davis (Chair) and B Fletcher (Secretary)

Observers Present:

C Cameron (Ofgem), R Fairholme (EON UK), J Martin (Scotia Gas Networks), S Fisher (National Grid NTS), R Street (Corona Energy) and J Vignola (Centrica Storage)

95.1 Note of any alternates attending meeting

S Rouse for A Bal (Shell) and B Dohel for A Gibson (Scotia Gas Networks)

95.2 Record of Invitees to the meeting

None.

95.3 Record of apologies for absence

A Bal and A Gibson

95.4 Receive report on status of Urgent Modification Proposals

None

95.5 Consider New, Non-Urgent Modification Proposals

- a) Modification Proposal 0292: Proposed change to the AQ Review Amendment Tolerance for SSP sites

Following a presentation by M Clark (Scottish Power, by teleconference for Proposals 0292 and 0293 only) and a discussion, the Panel failed to determine that the Proposal should proceed to consultation, with the following two votes cast in favour: P Broom and S Leedham. Therefore, the Proposal will be referred to the Distribution Workstream for consideration and development. It was unanimously agreed that the Panel would meet on 03 June 2010 to consider the Workstream report.

T Davis explained the process following Ofgem's decision not to grant urgent status for Modification Proposals 0292 and 0293. The Panel were notified of Ofgem's decision and written votes sought in favour of the Proposals being issued to consultation. Responses had not supported the

Proposals being issued to consultation, but had supported the items being discussed during this meeting. M Clark then outlined the Proposals and explained why Scottish Power believed the Proposals should be issued to Consultation.

C Warner asked if there were further details on the likely take-up of the service. M Clark advised that Scottish Power had provided commercially sensitive information to Ofgem regarding this.

C Warner asked for the clarification of the word “continuous” in the Proposal since he felt it may be difficult for continuous submission to be interpreted as legal text. M Clark explained the intention was to require parties to plan their amendment submissions rather than creating a backlog, and she felt the intent of the Proposal was clear.

Transporters were concerned that little information was being provided on likely take up and, as with the ROM associated with Proposal 0271, this created uncertainty – there is likely to be a wide variation in potential implementation and ongoing costs depending on the level of take up. R Street suggested he would be willing to provide details of the implications within his representation, and suggested others could do the same such that likely take up could be established as part of the Consultation process.

M Clark asked Ofgem if the Proposals were sufficiently developed to go to consultation. J Dixon considered this is an issue for voting Panel Members, although Ofgem would need clarity and supporting information to make a decision, covering both the costs and benefits of implementation.

The Panel requested the Workstream to consider the following items within their reports:

- Full impact assessment of the Proposals, not just the data aspects
- Define the term “continuous” as used within the Proposals
- Complete the User Pays sections of the Proposals, including
 - System impacts
 - Implementation and operational costs
- Clarify existing constraints, separately identifying UNC code obligations and xoserve operating procedures

b) Modification Proposal 0293: Proposed removal of the AQ Review Amendment Tolerance for SSP sites

No issues were raised beyond those discussed for Proposal 0292. The Panel failed to determine that the Proposal should proceed to consultation, with the following two votes cast in favour: P Broom and S Leedham. Therefore, the Proposal will be referred to the Distribution Workstream for consideration and development. The Workstream was requested to report to the 03 June 2010 Panel meeting.

c) Modification Proposal 0294: Changes to UNC Modification Panel Constitution

C Wright indicated his intent to amend the Proposal and requested that it

be considered at the June Modification Panel. The Panel UNANIMOUSLY agreed to defer consideration of this item.

d) Modification Proposal 0295: Allocation of Daily NTS Entry Capacity Within-Day

Following a presentation by R Fairholme and a discussion, Panel Members determined by PANEL MAJORITY that the Proposal should proceed to consultation with the following eight votes cast in favour: S Rouse (also proxy for A Bal), C Wright, P Broom, S Leedham, B Dohel, C Warner and J Ferguson. The Panel did not determine that legal text was required, with one vote (R Hewitt) in favour.

R Fairholme introduced the Modification Proposal, explaining there were a number of clarifications/minor amendments discussed at the Transmission Workstream that had been taken into account. R Hewitt advised that he did not think the actual Proposal was sufficiently clear and was concerned the capacity request requirements, as drafted, do not capture the intention. Given the wording of the Proposal, he believed it would be difficult to draft legal text. R Fairholme believed the intent of the Proposal, when read as a whole, is clear.

e) Modification Proposal 0296: Facilitating a Supply Point Enquiry Service for Non-Domestic Supply Points

Following a presentation by C Wright and a discussion, the Panel voted UNANIMOUSLY for this Proposal to be referred to the Distribution Workstream for consideration and development. The Workstream was requested to report by the 19 August 2010 Panel meeting.

C Wright introduced the Proposal. It was clarified that this was an enabling Proposal and the development of a service to provide the information would be taken forward separately. S Trivella noted the Proposal was addressing the intention of the UNC rather than just requesting a change to protected information, and suggested this should be discussed at a Workstream.

f) Modification Proposal 0297: Extending Rights to Protected Information Provisions for Meter Asset Managers / Registered Metering Applicants

The Panel UNANIMOUSLY agreed to defer consideration of this item.

J Martin introduced the Proposal and requested that it be deferred, such that the additional information to support proceeding to Consultation could be added.

95.6 Consider New Proposals for Review

None.

95.7 Consider Terms of Reference

None.

95.8 Existing Modification Proposals for Reconsideration

The Panel agreed UNANIMOUSLY to defer consideration of the following Proposals.

- a) **Proposal 0194 - Framework for correct apportionment of NDM error**
- b) **Proposal 0194A - Framework for correct apportionment of LSP unidentified gas**
- c) **Proposal 0228 - Correct Apportionment of NDM Error – Energy**
- d) **Proposal 0228A - Correct Apportionment of NDM Error – Energy**
- e) **Proposal 0229 - Mechanism for correct apportionment of unidentified gas**

J Dixon confirmed that Ofgem had received the legal text for Proposal 0229. Assuming Ofgem direct implementation of Proposal 0229, C Warner presented an update on the implementation timeline and associated issues.

- f) **Proposal 0246 - Quarterly NTS Entry Capacity User Commitment**
- g) **Proposal 0246A - Quarterly NTS Entry Capacity User Commitment**
- h) **Proposal 0246B - Quarterly NTS Entry Capacity User Commitment**

95.9 Consider Variation Requests

None.

95.10 Consider Workstream Monthly Reports

Workstream Reports for Consideration

- a) **Proposal 0287 - Change System Capacity Transfers Notification Time Limit from 04:00 to 03:00 hours (verbal update)**

T Davis advised additional issues had been raised at the Workstream and it is intended to consider these further at the June meeting. The Workstream is expected to report to the June Panel.

Extensions Requested

- a) **Development Group 0270 - Aggregated Monthly Reconciliation for Smart Meters**
Following a request, the Panel voted UNANIMOUSLY to extend the time for the Development Group to report until August 2010.
- b) **Development Group 0271 - Amendment to the SSP – Provisional LSP – SSP Amendment Rules**
Following a request, the Panel voted UNANIMOUSLY to extend the time for the Development Group to report until August 2010.
- c) **Review Group 0272 - Mod 640 Validation Arrangements for when a Change of Shipper has occurred**
Following a request, the Panel voted UNANIMOUSLY to extend the time for the Review Group to report until August 2010.
- d) **Development Group 0274 - Creation of a National Revenue Protection Service**
Following a request to put development of Proposal 0274 on hold, Panel members voted by Panel Majority to extend the time for the Development

Work Group to report until November 2010 with the following eight Members casting votes: S Rouse (also proxy for A Bal), C Wright, P Broom, S Leedham, B Dohel, C Warner and R Hewitt.

S Trivella argued that, rather than the Proposal being put on hold, the Proposer should be encouraged to withdraw the Proposal until non-UNC aspects of the NRPS have been developed. An appropriate Proposal could be raised in due course, which was likely to be significantly different to the existing Proposal. However, P Broom felt there would be merit in the Proposal remaining live in the interests of visibility. Equally he would not want any time to be lost once the non-UNC elements have been concluded.

- e) Development Group 0277 - Creation of Incentives for the Detection of Theft of Gas (Supplier Energy Theft Scheme)
Following a request, the Panel voted UNANIMOUSLY to extend the time for the Development Group to report until August 2010.
- f) Review Group 0280 - Review of Demand Estimation UNC Section H Processes and Responsibilities
Following a request, the Panel voted UNANIMOUSLY to extend the time for the Review Group to report until November 2010.
- g) Proposal 0281: Prevention of "Timing Out" of Authority decisions on Modification Proposals
Following a request, the Panel voted UNANIMOUSLY to extend the time for the Governance Workstream to report until August 2010.
- h) Proposal 0282 – Introduction of a process to manage Long Term Vacant Consider Final Modification Reports
Following a request, the Panel voted UNANIMOUSLY to extend the time for the Development Group to report until August 2010.

95.11 Consider Final Modification Reports

- a) Proposal 0279 - Improving the availability of meter read history and asset information

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, with no votes cast in favour.

The Panel determined by PANEL MAJORITY to recommend implementation with the following Members casting nine votes in favour: P Broom, S Rouse (also proxy vote for A Bal), S Leedham, R Hewitt, B Dohel, C Warner, J Ferguson and S Trivella.

T Davis summarised that the Proposal aims to make meter read history and asset information (i.e. Meter Information) available to Shippers for their current supply point portfolio on an annual basis, just ahead of the Annual AQ Review. The Proposal requires a report to be available on request to each Shipper (as a User Pays Service). Shippers could use the report to validate Aqs and invoices, and also to better forecast usage by new customers. Only those willing to pay for the service would do so, and this provides *prima facie* evidence that the benefits outweigh the costs.

However, it is proposed that initial costs will be spread across all eligible Shippers irrespective of use.

By making additional information available to set AQs and validate invoices, the allocation of costs between Shippers could be more accurate. This leads to improved cost targeting which is consistent with facilitating competition, and so furthers the achievement of the Code Relevant Objective “the securing of effective competition between relevant shippers”. In addition, by making this information available to the incoming Shipper, there is no disadvantage for a new as opposed to existing Shipper. Implementation of this Proposal could therefore facilitate creating a level playing field, thereby helping to secure effective competition.

However, implementation could also enable shippers to be selective about which read pairs they use to appeal an AQ, with the potential to select pairs that reduce their share of gas allocation. Implementation of the Proposal could therefore make AQs less accurate and cost targeting would be adversely impacted, thereby acting against the Code Relevant Objectives. Also implementation may not further effective competition because it could remove any competitive edge gained through investment in meter read collection, thereby distorting the market in favour of any shippers who do little to secure meter readings. Implementation may therefore unduly discriminate against those who do most to secure meter readings, which is deleterious to competition.

S Trivella said he would be concerned if there was potential to introduce opportunities for gaming, but was not clear why the existing controls and protections were insufficient. C Wright explained that it could be possible for a competitor to pick up additional information from previous shippers and choose which readings best suit their requirements. R Hall did not consider this was an anti-competitive issue, since the information would have provided the same opportunity to the outgoing Shipper.

On behalf of the Authority, J Dixon requested the provision of legal text for this proposal.

b) Proposal 0284 - Removal of the Zero Auction Reserve Price for Within-day Daily NTS Entry Capacity (WDDSEC)

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, with no votes cast in favour.

The Panel voted by PANEL MAJORITY to recommend implementation with the following Members casting seven votes in favour: C Wright, S Rouse (also proxy vote for A Bal), R Hewitt, B Dohel, C Warner and J Ferguson.

T Davis summarised that the Proposal seeks to remove the zero auction reserve price for firm Within-Day Daily NTS Entry Capacity in order to apply a reserve price as set out in the NTS Transportation Statement. Hence implementation would mean within-day firm capacity could only attract a higher charge than at present, which would discourage buying it relative to other firm entry products; and encourage purchase of daily

interruptible capacity that may be available with a zero reserve price. To the extent that an increased volume of other firm entry capacity products is booked, there would be an increase in capacity related transportation revenue and so the TO commodity charge would be lower than otherwise. Within day capacity revenue may also be increased if within day firm entry capacity continues to be purchased but at a higher price, which would impact SO revenues. This change in revenue collection would be expected to result in some shippers paying higher transportation charges than would otherwise be the case, and some lower. However, rather than resulting in a changed pattern of entry capacity bookings, increasing the reserve price for within day firm entry capacity may lead to a reduction in capacity bookings and may discourage the development and operation of declining/marginal offshore gas fields.

Panel Members then discussed how implementation might be expected to impact the Code Relevant Objectives.

R Hewitt suggested that any change in behaviour that produced a higher level of longer-term bookings would facilitate economic and efficient system operation since the system would be developed in light of the signals received.

It was recognised that National Grid NTS has a Licence obligation to conduct a clearing allocation, which the zero reserve price delivers. Therefore implementation would not facilitate the Code Relevant Objective of “the efficient discharge of the licensee's obligations under this licence”. However, it was anticipated that this Licence obligation would be removed if Ofgem were to direct that the Proposal should be implemented.

In terms of the Code Relevant Objective “the securing of effective competition”, if zero reserve price firm entry capacity is no longer available within day, this will increase the value of holdings of firm entry capacity. Consequently secondary trading could be encouraged. Increased trading and market liquidity would be expected to facilitate effective competition between Shippers. However, implementation would be expected to impact different classes of Shipper in different ways. This would not facilitate competition if it introduces undue discrimination, but would if it removes it. It was argued that implementation could adversely affect prompt liquidity and increase NBP volatility and so not facilitate competition – with traders, in particular, being likely to utilise short-term products.

R Hewitt believed implementation would encourage parties to book longer-term products, as entry capacity may no longer be available in the short-term market at the right price. R Street felt this might disadvantage some Users as their commercial choice would be reduced.

R Hewitt argued that implementation is a step towards reducing the smear applied through SO charges by incentivising behaviours to book capacity that is accounted for as TO revenue. S Fisher added that Users will gain a benefit since booking longer term capacity through the TO would be likely to provide more certainty on capacity charges moving forward, including through a reduced and more certain TO Commodity charge. This would be expected to facilitate effective competition between shippers.

R Hall felt more information was required regarding incentives and how implementation would be likely to change behaviours, and how this could then be demonstrated to impact the Code Relevant Objectives.

C Wright commented that implementation may prevent the current situation, under which the TO Commodity Charge had been seen to rise over time, getting worse rather than demonstrably improving achievement of the relevant objectives. He believed there would be merit in considering the Proposal as part of a package – the approach Ofgem may take in the anticipated Impact Assessment of this and related UNC, Charging Methodology and Licence changes.

S Rouse expressed concerns about the continuation and potential increase in cross subsidies through a significant TO Commodity Charge. She recognised, however, that there could be benefits from access to the market for those traders who use short-term products.

P Broom felt that the debate had not revealed a clear case for change in terms of facilitating achievement of the relevant objectives were the Proposal to be implemented.

- c) Proposal 0285 -"Use it or lose it"(UIOLI) Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity

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.

The Panel voted by PANEL MAJORITY to recommend implementation with the following Members casting seven votes in favour: C Wright, S Rouse (also proxy vote for A Bal), R Hewitt, B Dohel, C Warner and J Ferguson.

T Davis summarised that, were the Proposal to be implemented, UIOLI interruptible entry capacity would only be released when no more than 10% of firm entry capacity remained to be sold. As a result of interruptible capacity not being available, either gas will not flow or Shippers will book more firm entry capacity. Since firm capacity will be available (at least 10% is unsold) and the reserve price is the same as for interruptible (zero) in the same timescale, the latter may be regarded as more probable. Encouraging the purchase of firm rather than interruptible capacity may also lead to some buying further ahead of the day, thereby encouraging longer term bookings.

Panel Members recognised that the arguments in favour of implementation were similar to those for Proposal 0284, with the key judgement being whether the securing of effective competition would be facilitated or harmed. Firm capacity utilisation would be encouraged, and secondary capacity market trading may be encouraged since firm capacity holdings would have an increased value. However, reduced availability of interruptible capacity could discourage use of the system by some categories of Shipper, such as those looking to support short term, low value uses. Some Panel Members saw this as creating a level playing field - removing an existing benefit for marginal fields – such that implementation would be consistent with facilitating competition.

- d) Proposal 0286/0286A- Extending Modification Panel Voting Rights to Consumer Representatives

Members considered the report was in the correct form and discussed

whether or not to recommend implementation of each Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group.

Proposal 0286 – The Panel did not determine to recommend implementation, with the following Members casting five votes in favour of implementation: C Wright, P Broom, S Leedham, R Hewitt and C Warner.

Proposal 0286A - The Panel did not determine to recommend implementation with the following Members casting five votes in favour of implementation: C Wright, P Broom, S Leedham, R Hewitt and C Warner

Two votes were cast in favour of a view that Proposal 0286 would further the relevant objectives to a greater extent than Proposal 0286A. Five votes were cast in favour of a view that Proposal 0286A would further the relevant objectives to a greater extent than Proposal 0286.

Panel members noted that the standard Code Relevant Objectives do not apply since the Proposals involve a change to the Modification Rules.

T Davis summarised that Implementation of either Proposal would mean that consumer representative votes would be clearly recorded and visible in Modification Reports and Modification Panel minutes. This might be expected to facilitate consideration of representations “by persons likely to be materially affected were the proposal to be implemented” and, consequently, implementation would be expected to facilitate achievement of paragraph 9. However, it may also be argued that representations are readily available and views can be recorded without a vote being introduced, such that it has not been demonstrated that implementation would facilitate better achievement of paragraph 9.

On behalf of the Authority, J Dixon requested the provision of legal text for both of these Proposals.

- e) Proposal 0288 - Facilitating the Reduction of Enduring Annual NTS Exit (Flat) Capacity by a value less than 100,000kWh

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.

The Panel voted UNANIMOUSLY to recommend implementation.

T Davis summarised that the Proposal seeks to remove the Minimum Eligible Amount requirement for all Capacity reduction requests. Implementation would therefore enable Users to reduce exit capacity holdings by less than 100,000kWh and so better reflect their requirements. This would lead to Shippers only paying for the capacity they require rather than being unable to reduce holdings by less than 100,000kWh. This would in turn lead to more accurate cost allocation, which would facilitate the securing of effective competition between relevant shippers.

On behalf of the Authority, J Dixon requested the provision of legal text for this proposal.

- f) Proposal 0290 - To Facilitate the release of Additional NTS Exit (Flat) Capacity at National Grid NTS's discretion

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.

The Panel voted UNANIMOUSLY to recommend implementation.

T Davis summarised that the Proposal seeks to allow National Grid NTS to meet Shipper requirements for Annual Flat Exit Capacity. By releasing additional exit capacity in response to demand, National Grid NTS would be expected to meet Licence obligations with respect to meeting reasonable demands. Hence implementation would facilitate achievement of the Code Relevant Objective of "the efficient discharge of the licensee's obligations under this licence". Equally making additional capacity rights available to the market in response to demand would be expected to facilitate the securing of effective competition.

On behalf of the Authority, J Dixon requested the provision of legal text for this proposal.

95.13 Receive report on status of Consents

There were no changes to report.

95.14 Any Other Business

- a) T Davis noted that documents had been provided for the meeting through two routes. Views on which was preferable, or for any alternative would be welcome.
- b) T Davis advised that the Joint Office is considering using a lower cost meeting facility for Panel. No strong views on location were expressed.
- c) T Davis confirmed that new templates for all standard modification business are expected to be used in order to comply with the Code Administration Code of Practice. Panel Members were not inclined to make an immediate change but noted that a change would be necessary in the near future.
- d) S Trivella gave notice that, in line with the recommendations of the Review Group 0252 report, it is Transporters intention to raise 14 new credit related Proposals for consideration at the June Panel meeting. Presentations on the Proposals will be available at the Distribution and Transmission Workstreams.
- e) R Street advised that it is Corona Energy's intention to raise a new Proposal to incentivise behaviours for parties who repeatedly receive cash calls. S Leedham suggested consideration be given to the Transporters 14 new credit proposals in order to ensure there are no conflicts.

95.12 Conclude Meeting and Agree Date of Next Meeting

The Panel noted that the next meetings were planned for:

13.00 on 03 June 2010.

10.00 on 17 June 2010.