

Modification proposal:	Uniform Network Code (UNC) 091: Extending Uniform Network Code to allow Users to raise Class 3 UK Link modification proposals (UNC091)		
Decision:	The Authority¹ directs that this proposal be made²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	24 November 2006	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The UK Link is an information exchange system which enables the exchange of information between system users and the gas transporters relating to supply point administration, the balancing of the gas system and other matters. Class 3 UK Link Modifications are changes to that system which are funded by Users rather than Transporters. The industry has previously considered adding additional Gemini functionality and providing an environment in which Users could test specific UK Link modifications. The question of how any costs associated with the provision of necessary system changes has proven problematic and meant that no final agreement has been reached.

The effect of the current rules is that only Transporters can raise a modification proposal in respect of Class 3 UK Link Modifications. The proposer recognised that Transporters are under no obligation to make a Class 3 UK Link Modification Proposal and that they may have no interest in such proposals in any case. It was suggested by the proposer that this might cause uncertainty as to how to initiate the UK Link change process in the event that agreement as to the treatment of costs associated with a modification could be reached.

The modification proposal

It was suggested that the UNC should be changed to allow either a User or a Transporter to raise a Class 3 UK Link Modification Proposal. The proposer believed that providing a route through which Users could raise Class 3 UK Link modification proposals would better facilitate the achievement of Relevant UNC Objective (d) by providing a more direct means for Users to access the potential benefits associated with a Class 3 UK Link Modification Proposal or the use of a UK Link test environment. The proposer also suggested that the modification would provide clarity for Users in the way Class 3 UK Link Modifications can be initiated, which in turn would improve the efficiency of the administration of the UNC and the UK Link.

UNC Panel³ recommendation

On 19 October 2006 the UNC Panel unanimously voted to recommend to Ofgem that this Modification Proposal should be approved.

The Authority's decision

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 19 October 2006. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁴. The Authority has concluded that:

- 1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁵; and**
- 2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁶.**

Reasons for the Authority's decision

Relevant UNC Objective (f)

UNC091 seeks to promote efficiency in the implementation and administration of the UNC. Respondents to the consultation stated that enabling UNC Users as well as Transporters to raise Class 3 UK Link Modification proposals would better facilitate achievement of Applicable UNC Objective (f) which relates to the promotion of efficiency in the implementation and administration of the UNC. Some respondents suggested that changing the UNC in this way could remove an unnecessary level of complexity from the arrangements in that Users will no longer have to rely on Transporters to propose changes on their behalf. We agree that the proposal will provide greater clarity in the operation of the code, make the governance procedures more equitable, and remove an unjustified complexity which is currently a feature of the UNC. It is Ofgem's view that in these ways UNC091 will better facilitate the achievement of Relevant UNC Objective (f).

The absence of a cost allocation mechanism for Users in respect of Class 3 UK Link Modifications has been an acknowledged deficiency in the UNC for some time. UNC091 will not directly address this deficiency and we are seriously concerned that the proposal does not include a mechanism through which it is clear how costs will be shared. Without this clarity the market will lack transparency and the increased uncertainty in the arrangements which will result from this may discourage market entry. Although Ofgem agrees with consultation respondents that it is appropriate to introduce a mechanism which will enable parties other than Transporters to raise Class 3 UK Link Modifications, as this will provide an incentive for an agreement on cost sharing to be found, we encourage parties to consider introducing a cost allocation mechanism within the UNC.

We note that it has been suggested by some respondents that if UNC091 were approved, all subsequent Class 3 Modification Proposals should explicitly address the issues of costs. We also note the suggestion that a proposing party would have to liaise with the Transporters concerning the nature of the changes, the cost sharing mechanism and the implementation timetable, and the Panel would then have to consider these issues when deciding whether a modification proposal is sufficiently well developed to allow it to proceed to consultation. These features are not reflected in the legal text for UNC091,

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://62.173.69.60/document_fetch.php?documentid=6547

⁶The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

and it is for UNC parties to consider whether it would be appropriate to further amend the UNC to formalise these expectations.

Relevant UNC Objective (d)

We consider the argument put forward that *enhancing the clarity and equitability of the governance regime will benefit competition* is not as relevant to Relevant UNC Objective (d) given the facts of UNC091 as detailed in the background section of the letter, but is more relevant to Relevant UNC Objective (f). Similarly, we consider that enabling Class 3 Modifications to progress smoothly through the change process where the changes in question are of little interest to Transporters *or where the costs of making changes cannot be covered by UK Link Users* is more relevant to Relevant UNC Objective (f) than (d), although a marginal benefit to competition may exist.

We agree that the current rules potentially stifle innovation in the market, and that changing those rules to provide a more direct means for users to access the potential benefits associated with Class 3 UK Link Modifications would benefit competition. Notwithstanding this and whilst we consider that in principle, potential benefits to competition could accrue through future Class 3 UK Link Modification proposals being raised, we note that the realisation of these benefits is dependent on agreement being found in relation to issues where this has previously been impossible.

Other Relevant UNC Objectives

We do not consider that Relevant UNC Objectives, (a), (b), (c), and (e) are relevant to UNC091.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC091: “Extending Uniform Network Code to allow Users to raise Class 3 UK Link modification proposals” be made.



Nick Simpson
Director, Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose.