

Draft Modification Report
DN Transportation Charging Methodology and Change Governance
Modification Reference Number 0325V
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification 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.

This Modification Proposal aims to implement the conclusions of the Code Governance Review Final Proposals in respect of Charging Methodologies¹, 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;
- 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:

¹http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR_Finalproposals_310310.pdf
pages 30 – 36 (inclusive)

- 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 Methodologies² (as at the date of implementation, if so directed) are incorporated within the Uniform Network Code; and
- the UNC Modification Rules are amended to reflect that
 - the Transporters must convene meetings (not less frequently than every three months, unless there is no matter to discuss) of the charging methodology forum (as defined in Standard Special Condition A11 (24) of the Gas Transporter Licences) being the 'DN Charging Methodology Forum'. It is proposed that this Forum shall be defined as a UNC Workstream³ (defined within the current UNC Modification Rules) other than this Forum shall comprise of representatives of Materially Affected Parties, Users and Transporters.
 - This Forum will operate in accordance with the Chairman's Guidelines⁴ and may not be dissolved. This Forum will be convened for the general purposes of discussing the further development of the applicable Charging Methodologies (and other charging related matters by agreement) in accordance with its Terms of Reference (which group shall have no power or authority to bind any User or any Transporter).

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:

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

³ Workstream will be superseded by Workgroup in the event of implementation of UNC Modification Proposal 0319.

⁴ Chairman's Guidelines will be superseded by the Code Administration Code of Practice in the event of implementation of UNC Modification Proposal 0319.

- insofar as reasonably practicable, the relevant Transporter will provide information or assistance (for the purpose of preparing a proposal to modify a Charging Methodology in respect of its network) reasonably requested by a Materially Affected Party;
- a Modification Proposal in respect of a 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);
- that Proposer of a Modification Proposal in respect of a Charging Methodology state its opinion as to why it believes that the proposal does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Gas Transporter Licences;
- at initial discussion of a Modification Proposal in respect of a Charging Methodology, the Modification Panel consider whether the proposal conflicts with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Gas Transporter Licences;
- that the Modification Report incorporate a view as to whether a Modification Proposal in respect of a Charging Methodology conflicts 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 six elements generic to both DNO and NTS Gas Transporter Licences are advocated by both this Proposal and Modification Proposal 0322. This enables each Proposal to be implemented in isolation if so directed.

Suggested Text

UNIFORM NETWORK CODE MODIFICATION 0325 CODE GOVERNANCE REVIEW: DN TRANSPORTATION CHARGING METHODOLOGY

Draft [legal text]

TPD

Insert text to create a new section within TPD to read as follows:

SECTION Y: CHARGING METHODOLOGIES

PART B - DN TRANSPORTATION CHARGING METHODOLOGY

[Insert document contained within Annex A “Gas Distribution Transportation Charging Methodology”]

MODIFICATION RULES

Add new paragraph 1.4 to read as follows:

1.4 Materially Affected Party

The Transporters shall provide, to the extent that is reasonably practicable, in relation to a Modification Proposal that includes a proposed modification to Section Y, such information reasonably required by a Materially Affected Party in respect of the proposed modification.

Add the following defined terms at paragraph 2.1:

"DN Charging Methodology Forum": means a Workstream comprised of representatives of Materially Affected Parties, Users and Transporters, chaired by a representative of the Transporters⁵ and operating within the Chairman's Guidelines⁶, which is convened for the general purposes of consideration and discussion of matters relating to Part B of Section Y or Modification Proposals in respect of Part B of Section Y in accordance with its Terms of Reference (which group shall have no power or authority to bind any Materially Affected Party, User or Transporter);

"Materially Affected Party": has the meaning given in Standard Special Condition A11(24) of the Transporter's Licence;

Amend paragraph 2.1 to read as follows:

"Chairman's Guidelines"⁷: a set of standing guidelines issued by the Transporters governing the conduct of meetings of the Modification Panel, Workstreams, Development Work Groups, DN Charging Methodology Forum and Review Groups, as amended from time to time by Panel Majority;

"Relevant Objectives": ~~means:~~ has the meaning given in

- (a) ~~the relevant objectives in~~ Standard Special Condition A11(~~24~~) of the Transporter's Licence; and
- (b) ~~in relation to a proposed Modification of these Rules, the requirements in Standard Special Conditions A11(9) and (12) (to the extent that they do not conflict with the relevant objectives referred to in (a) above);~~

"Workstream":

- (a) a group comprised of representatives of Users and Transporters chaired by a representative of the Transporters and operating within the Chairman's Guidelines, which is convened for the general purposes of consideration and discussion of matters relating to the Uniform

⁵ Comment: if modification 319 on the Code of Practice is implemented the reference to Transporters will need to be changed to Code Administrator.

⁶ Comment: if modification 319 on the Code of Practice is implemented the reference to the Chairman's Guidelines will need to be changed the Code of Practice.

⁷ Comment: if modification 319 on the Code of Practice is implemented this definition will be deleted.

Network Code, an Individual Network Code or a Modification Proposal in accordance with paragraph 7.4 in accordance with its Terms of Reference (which group shall have no power or authority to bind any User or any Transporter); or

- (b) a DN Charging Methodology Forum, in respect of a Modification Proposal which proposes a modification to Part B of Section Y.

Amend paragraph 5.1.2(b) to read as follows:

Workstreams other than the DN Charging Methodology Forum may be created or dissolved by Panel Majority.

Amend paragraph 6.1.1 to read as follows:

- 6.1.1. Without prejudice to paragraph 6.4 or paragraph 12.4 in respect of the Uniform Network Code may be made from time to time by:

- (a) ***a Transporter; ~~and/or~~***
- (b) ***any User;;***
- (c) ***in the case only of a Modification Proposal which proposes a modification to Section Y, a Proposer that is the Materially Affected Party;***

and any Third Party Participant may make a Third Party Modification Proposal.

Amend paragraph 6.1.2 to read as follows:

- 6.1.2 Without prejudice to paragraph 6.4 or paragraph 12.4 a Modification Proposal in respect of an Individual Network Code may be made from time to time by:

- (a) ***a Relevant Transporter; ~~and/or~~***
- (b) ***any Relevant Shipper; and/or***
- (c) ***in the case only of a Modification Proposal which proposes a modification to Section Y, a Proposer that is the Materially Affected Party.***

Amend paragraph 6.2.1 to read as follows:

- 6.2.1 ...

- (j) ~~....; and~~
- (k) ~~....; and~~
- (l) in the case of a Modification Proposal which proposes a modification to Part B of Section Y, shall state the Proposer's opinion why the Modification Proposal does not conflict with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence.

Amend paragraph 7.2.2(a) to add a new sub-paragraph (v) as follows:

- (iii) ...; ~~and~~
- (iv) ...; ~~or~~ and
- (v) considered whether a Modification Proposal in respect of Part B of Section Y conflicts with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence; or

Amend paragraph 9.4.1 to add a new sub-paragraph (u) as follows:

- (t) ...; *or*
- (u) where it is a Modification Proposal in respect of Part B of Section Y, state the view of the Modification Panel as to whether the Modification Proposal conflicts with paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence.

Add new paragraph 12.10 to read as follows:

12.10 DN Charging Methodology Forum

The Transporters shall ensure the DN Charging Methodology Forum meets on a regular basis, for which purpose the Secretary shall convene a meeting of such forum by notice to its members at least once every three (3) months unless there is no matter for the DN Charging Methodology Forum to discuss.

GT SECTION C – INTERPRETATION

Amend paragraph 1 to read as follows:

"Transportation Statement": means the prevailing statement furnished by the Transporter to the Authority under Standard Special Condition A4 of the Transporter's Licence and in respect of which the methodology referred to in paragraph 5 of that condition is set out in TPD Section Y.

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 as it does not create or amend any User Pays services.

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**

Not 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 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 relevant obligations (as detailed in section 1) imposed upon it following the Ofgem Code Governance Review, under paragraph 6, 9 and 10 of Standard Special Condition A11. 'Network Code and Uniform Network Code', of the Gas Transporters' Licence.

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 of Standard Special Condition A11 of the DN Licence we believe that implementation of this proposal would better facilitate the relevant objectives as per Standard Special Condition A11 (2).

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;

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)).

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;

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

4 The implications of implementing the 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 the Modification Proposal, including:

a) Implications for operation of the System:

Not applicable.

b) 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) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No additional cost recovery is proposed at present.

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

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 consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Implementation is not required to enable such compliance.

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

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

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)

No such implications identified.

Development and capital cost and operating cost implications

No such implications identified.

Consequence for the level of contractual risk of Users

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 implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, 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 each Transporter and each User and Non Code Party of implementing the Modification Proposal

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

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

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

Written Representations are now sought in respect of this Draft Report. Consultation End Date: 05 November 2010

Representations were received from the following parties in respect of UNC0325:

Organisation	Position
British Gas	Supports
EDF Energy	Supports

E.ON UK	Supports
First:Utility	Supports
Northern Gas Networks	Supports
National Grid Distribution	Supports
National Grid Transmission	Supports
RWE npower	Supports
Scotia Gas Networks	Supports
Scottish Power	Supports
SSE	Supports
Wales & West Utilities	Supports

In summary, of the twelve representations received, all support implementation of the Proposal.

British Gas considers that providing shippers with greater influence over charging methodologies is more likely to see greater focus upon ensuring that charges are apportioned in the most efficient and appropriate way.

EDF Energy considers a fixed cut-off date approach would help provide clarity and predictability of future costs to the industry. Without an implementation cut-off date, parties potentially would need to put a "risk factor" amount into their tariffs to take account of potential changes to charges at a later date, which would lead to higher prices for consumers. It is noted that the Authority will always have the ability to determine a different implementation date to that recommended by the Modification Panel.

E.ON UK consider it is correct that Code signatories should be given the opportunity to raise proposals to change the charging methodologies but note that in the absence of appropriate checks and balances, there is a risk of un-coordinated piecemeal changes being implemented or issues being repeatedly re-visited.

In respect of the relevant objectives, E.ON UK are not of the opinion that opening up the charging methodologies for users and affected parties to raise changes will necessarily benefit competition in terms of simplicity, tariff predictability and frequency of changes. There could be detrimental impacts in each of these areas, but on balance, they consider that the competition benefits which may be expected to arise from reducing the scope for discrimination between different classes of Users and their customers and reductions in cross-subsidies could outweigh the dis-benefits.

National Grid Distribution considers the methodology that is to be inserted into

the UNC would be the methodology that exists as at the date of the provision of the final legal text, which may be different to the methodology provided alongside the Modification Proposal. For the purposes of clarification, any such changes to the methodology would have been subject to the prevailing change governance arrangements.

Further, in the event of implementation, for the purposes of 'transition', where a change to the methodology is proposed as at a date prior to the date of implementation, National Grid Distribution would progress this change as per arrangements existing prior to implementation of the proposal. Whereas, from the date of implementation any changes would progress using the new UNC arrangements (i.e. pursuant to the UNC Modification Rules).

Both National Grid NTS and Northern Gas Networks considers the Distribution Charging Methodology Forum will play a key role in assisting industry participants in developing modification proposals related to the charging methodologies.

RWE Npower agree with the rationale that the proposed change will improve transparency and accessibility of the governance process, though it is questionable as to whether this will have a significant impact in terms of promoting competition by removing some of the barriers that the existing arrangements introduce.

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 proposed that in the event of the appropriate direction from the Authority that this Proposal is implemented on 31 December 2010.

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

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal [not] to modify the Code and the Transporter now seeks [agreement/direction] from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters