

## Uniform Network Code Modification Panel

### Minutes of the 103<sup>rd</sup> Meeting

Held on Thursday 16 December 2010

#### Record of Votes Cast and Determinations

Minutes Ref	Modification	Vote Outcome	Shipper Voting Members					Transporter Voting Members					Determination Sought	
			AB	CWr	PB	RF	SL	AR	CS	CWa	JM	RCH		
103.5	0350 - Combining the NTS entry capacity and exit capacity credit checks	To be assessed by Transmission Workstream	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Refer to Transmission Workstream
103.5	<u>0351 - Enduring Exit Overruns - Deemed Applications</u>	To be assessed by Transmission Workstream	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Refer to Transmission Workstream
		Workstream to report by March Panel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Report by March Panel
103.5	0352 - The Introduction of an Interruptible Reverse Flow service at Moffat Interconnector	To be assessed by Transmission Workstream	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Refer to Transmission Workstream
103.6	0347 – Amend NTS Exit Capacity Assignment Start Date	0347V to continue through modification process instead of 0347.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Variation request is immaterial
103.7	0282 - Introduction of a process to manage Vacant sites	Returned to Distribution Workstream for further development							✓		✓	✓	✓	Proceed to consultation
103.7	0292 - Proposed change to the AQ Review Amendment Tolerance for SSP sites	Draft Modification Report to be issued for consultation				✓	✓	✓	✓	✓	✓	✓	✓	Issue to consultation
		No further cost estimate required for the Draft	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	Is cost estimate not required

		Modification Report												
		Legal text not required for the Draft Modification Report		✓	✓		✓							Is legal text required
103.7	0312 - Introduction of Two-Thirds Majority Voting to the UNC Modification Panel	Consideration deferred until January Panel meeting	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Defer consideration
103.7	0314 - The provision of a "Data Update" to Non Code Parties	Returned to Distribution Workstream for further development	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	Return to Workstream
		Workstream to report by January Panel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Report to January Panel
103.7	0326 - Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)	Draft Modification Report to be issued for consultation	✓	✓	✓	✓	Abs	✓	✓	✓	✓	✓	✓	Issue to consultation
		Transporters to provide, by 11 January, cost estimate for inclusion in Draft Modification Report.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Produce cost estimate by 11 January
		Transporters to provide, by 11 January, legal text for inclusion in Draft Modification Report.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Is legal text required
103.7	0330 - Delivery of additional analysis and derivation of Seasonal normal weather	Returned to Distribution Workstream for further development												Issue to consultation
		Workstream to report by February Panel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Report to February Panel
103.7	0333 - Update of the default System Marginal Buy Price and System Marginal Sell Price	Returned to Transmission Workstream for further development	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Return to Workstream
		Workstream to report by	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Report back to February

		February Panel												Panel
103.7	0341 - Manifest Errors in Entry Capacity Overruns	Draft Modification Report to be issued for consultation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Issue to Consultation
		Representations to be received by 4 February	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Consultation to closeout on 4 February
		Transporters not required to prepare legal text												Is legal text required
103.7	0270 - Aggregated Monthly Reconciliation for Smart Meters	JO to seek approval for extension from Ofgem	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Request extension to three months following receipt of the Ofgem letter	
103.7	0316 - Review of Section I of the Offtake Arrangements Document (OAD): NTS Operational Flows	Review Group to report by March Panel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Extension Requested to March Panel	
103.7	0331 - Demand Estimation Section H Changes to Processes and Responsibilities	Distribution Workstream to report by March Panel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Extension Requested to March Panel	
103.7	0335 - Offtake Metering Error - Payment Timescales	Distribution Workstream to report by March Panel	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Extension Requested to March Panel	
103.8	0336 - The Introduction of a Balancing Neutrality Adjustment Charge for Cost Recovery Associated with Rating Services	Not referred back to Workstream											Did consultation raise new issues	
		Implementation recommended	✓	✓	✓	✓		✓	✓	✓	✓	✓	Whether to recommend implementation	
103.8	0347V – Amend NTS Exit Capacity Assignment Start Date	Not referred back to Workstream											Did consultation raise new issues	
		Implementation recommended	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Whether to recommend implementation	
103.8	0349 - Introduction of a Force Majeure Capacity Management	Not referred back to Workstream											Did consultation raise new issues	

	Arrangement	Implementation recommended	✓		✓			✓	✓	✓	✓	✓	Whether to recommend implementation
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## Attendees

### Voting Members:

Shipper Representatives	Transporter Representatives
A Bal, Shell (AB) C Wright, British Gas (CWr) P Broom, GDF Suez (PB) R Fairholme, E.ON UK (RF) S Leedham, EDF Energy (SL)	A Ross, Northern Gas Networks (AR) – Alternate for J Ferguson C Shanley, National Grid Transmission (CS) – Alternate for R Hewitt C Warner, National Grid Distribution (CWa) J Martin, Scotia Gas Networks (JM) – Alternate for A Gibson R Cameron-Higgs, Wales & West Utilities (RCH) – Alternate for S Trivella

### Non-Voting Members:

Independent Suppliers' Representative	Chairman
C Hill, First Utility (CH)	T Davis, Joint Office (TD)

### Also in Attendance:

C Cameron, Ofgem (CC), D Ianora, Ofgem (DI)

By Teleconference: K Kennedy, Scottish Power (KK), M Clark, Scottish Power (MC), S Ellwood, TPA Solutions (SE), Ale-Jan Algra, GasTerra (AA)

**Panel Secretary:** R Fletcher, Joint Office (RF)

## Record of Discussions

### **103.1 Receive report on status of Urgent Modification Proposals**

None

### **103.2 Consider New, Non-Urgent Modification Proposals**

- a) Proposal 0350 - Combining the NTS entry capacity and exit capacity credit checks

CS explained that Modification 0332 had been withdrawn following comments from the industry and replaced with Modification 0350. The aim is to combine two credit checks and remove ambiguity from the UNC. He added that the legal text for 0350 might impact 0310 and 0311. It was agreed that the proposed text should be made available for consideration.

Members determined that Modification 0350 should be sent to the Transmission Workstream for assessment.

- b) Proposal 0351 - Enduring Exit Overruns - Deemed Applications

CS introduced the modification and proposed that it be referred to the Transmission Workstream. TD noted that his would make the suggested implementation date, 1 April, unachievable.

Members determined that Modification 0351 should be sent to the Transmission Workstream for assessment.

- c) Proposal 0352 - The Introduction of an Interruptible Reverse Flow service at Moffat Interconnector

CS introduced the modification and proposed that it be referred to the Transmission Workstream.

Members determined that Modification 0352 should be sent to the Transmission Workstream for assessment.

### **103.3 Consider Variation Requests**

- a) Proposal 0347 – Amend NTS Exit Capacity Assignment Start Date

CWr introduce the Variation Request and explained that this only affects the supporting description and not the Proposal itself.

Members determined that the Variation Request is immaterial.

### **Consider Workstream Monthly Reports**

#### **Workstream Reports**

- b) Proposal 0282 - Introduction of a process to manage Vacant sites

CC advised that Ofgem would welcome further information on charging and the proposed ACS (Agency Charging Statement) change. She also asked if alternative charging arrangements might be proposed. SL advised that EDF is likely to raise an Alternative with a different basis for the User Pays charges.

CWr questioned whether the business rules were sufficiently clear. For example, what is meant by Shippers warranting they have complied with the SPAA schedule? MC advised that the SPAA schedule would mirror the business rules in the modification, and CWa suggested that the proposed SPAA schedule should be with Ofgem for decision at the same time as this modification.

As a further example of the potential lack of clarity, CWr raised the reference to provision of age analysis reports - should these be more clearly defined? MC explained the intent was to give flexibility in reporting.

Members determined to refer the modification back to the Workstream for further assessment.

c) Proposal 0292 - Proposed change to the AQ Review Amendment  
Tolerance for SSP sites

Members noted reference in the modification to a supporting guidance document and suggested that this should be available prior to the modification being issued to consultation. KK confirmed that a draft document had just been produced in conjunction with xoserve, and was now available on the Joint Office website.

CWr suggested that issues covered in the guidance document could be central to consultation responses, and hence was concerned the document has not been formally developed. TD indicated that the modification obliges the Transporters Agent, following consultation with Users, to produce and publish a guidance document. As such, this process can only start following implementation. SL asked if the guidelines document had to be followed, and CWa confirmed it would not be mandatory on Transporters or their agent.

MC explained that the modification addresses the allocation of xoserve system capacity between Users, and the guidance document then addresses the allocation of any unused capacity. CWr noted that the modification refers to the document going beyond this, covering submission of amendments.

CS asked if operational costs should be reflected in the User Pays section of the modification. There was a general acceptance that, while this was correct in principle, operational costs depended on take up and so are not available at this stage.

CC asked if there was merit in adopting an extended consultation, thereby allowing parties time to raise concerns about the costs, legal text and the guidance document. SL would prefer to see the legal text in advance but did not consider it essential for the consultation process. CWa added that any delay to the timetable could threaten the desired implementation date.

Members determined that Modification 0292 should proceed to consultation. They did not determine that either a further cost estimate nor legal text was required for inclusion in the draft Modification Report.

d) Proposal 0312 - Introduction of Two-Thirds Majority Voting to the UNC Modification Panel

SL & RF outlined their understanding of the legal opinion provided with respect to similar modifications to the CUSC and BSC. A distinction was drawn as a result of the wording of the statutory instrument, which relates to appeals to the Competition Commission not being allowed when the Ofgem decision accords with either a Panel Recommendation (BSC) or a Panel Majority (CUSC). The understanding was that implementation would therefore impact the right to appeal under the BSC but not the CUSC.

CC advised that a joint BSC and CUSC meeting with the QC was imminent and felt further guidance may be available after this meeting. In addition, CC accepted that Ofgem might potentially need to seek its own legal advice prior to making a decision on this modification. PB was of the opinion that, since Ofgem has to make the decision on implementation and would need to be satisfied with any legal advice, the Modification should proceed to consultation.

Members determined to defer consideration of Modification 0312.

e) Proposal 0314 - The provision of a "Data Update" to Non Code Parties

TD Indicated that discussions with the Proposer were ongoing. The intention was to identify changes that would ensure the modification is implementable and delivers the intended outcome. SL suggested that, if the changes are significant, the modification should be discussed by a Workstream.

Members determined to refer the modification back to the Distribution Workstream for further assessment.

f) Proposal 0326 - Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)

PB emphasised that issues regarding retrospective costs should be clarified urgently - contracts are being negotiated and this is a key piece of information. CWa believed Modifications 0339 and 0340 should address this.

Members determined that Modification 0326 should proceed to consultation, and that both a cost estimate and legal text should be provided for inclusion in the draft Modification report - the Transporters to provide these by 11 January. On behalf of the Authority, CC also requested the provision of legal text.

Proposal 0330 - Delivery of additional analysis and derivation of Seasonal normal weather

RCH advised that Wales & West Utilities should be able to provide legal text for the January Panel. He asked for consideration to be deferred until that time such that the modification could be amended if legal issues are identified. SL preferred the modification proceeding to consultation subject to the provision of legal text.

CC asked if the cost implications were available and when the proposed

ACS change would be available. CWa advised that estimates had been provided by the Proposer, but actual costs could only be known when the tender process has been undertaken. TD advised that any request for legal text was also a request for the supporting ACS change. JM pointed out that any ACS change would not be able to indicate the level of charges since costs were unknown.

CWa was concerned that the modification had not adopted all the changes suggested in the Workstream Report, and was concerned that this would make it difficult to produce legal text, if possible at all.

Members determined to refer the modification back to the Distribution Workstream for further assessment, and requested that legal text be provided and reviewed.

- g) Proposal 0333 - Update of the default System Marginal Buy Price and System Marginal Sell Price

Members questioned why the User Pays guidance document had not been followed regarding the split of costs between Users and Transporters, and noted that no explanation as to the reasons for this had been provided. It was suggested that Ofgem might be asked for a view on whether funding was allowed for elsewhere, such as through the SO incentives. CS accepted that additional justification for the proposed funding split could be provided, although he would not anticipate a different approach being put forward by National grid NTS.

CWr noted that the Workstream has identified the desirability of updating a formula. CS confirmed that this change was outstanding.

Members determined to refer the modification back to the Transmission Workstream for further assessment.

- h) Proposal 0341 - Manifest Errors in Entry Capacity Overruns

TD confirmed that the Proposer had provided suggested text. Members determined that Modification 0341 should proceed to consultation. They did not determine that either a further cost estimate nor legal text was required for inclusion in the draft Modification Report.

### **Extensions Requested**

- a) Proposal 0270 - Aggregated Monthly Reconciliation for Smart Meters

TD advised that, when granting a three month extension for modification 0270 to be developed, Ofgem had undertaken to issue a letter setting out issues to be addressed within the extension period. This letter remained outstanding and therefore he proposed asking Ofgem for a further extension – requiring the Group to report within three months following receipt of Ofgem's letter. Members supported this approach and CH, as Proposer, indicated that he was in favour.

CWa argued that the intention behind this modification could be delivered through Project Nexus. However, CH countered that the intent was to identify an interim solution prior to any changes which may arise as a

result of Project Nexus.

- b) Proposal 0316 - Review of Section I of the Offtake Arrangements Document (OAD): NTS Operational Flows  
Members determined to extend the time for the Workstream to report until March 2011.
  
- c) Proposal 0331 - Demand Estimation Section H Changes to Processes and Responsibilities  
  
Members determined to extend the time for the Workstream to report until March 2011.
  
- d) Proposal 0335 - Offtake Metering Error - Payment Timescales  
Members determined to extend the time for the Workstream to report until March 2011.

#### **103.4 Consider Final Modification Reports**

- a) Proposal 0336 - The Introduction of a Balancing Neutrality Adjustment Charge for Cost Recovery Associated with Rating Services

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 Chair summarised that the modification seeks to allow National Grid NTS' costs of acquiring credit rating services to be recovered from Users. The information is acquired to support energy balancing credit management, and the modification deals solely with funding, seeking to target costs on those who benefit from the services provided.

Some Members questioned whether modification of the UNC was necessary for these costs to be recovered, and suggested that it was inconsistent with efficient administration of the UNC to introduce a specific funding route when a generic route already exists. However, it was recognised that the possible inefficiency had been crystallised by the raising of the modification.

Nine Members voted in favour of recommending implementation, and one did not. Therefore the Panel determined to recommend implementation of Modification 0336.

#### Panel's view of the benefits of 0349 against the Code Relevant Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic	None

operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	
c) Efficient discharge of the licensee's obligations.	None
d) 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.	While the costs are not material, targeting costs on those who benefit from the associated service is consistent with facilitating effective competition.
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code	Ensuring National Grid NTS can recover properly incurred costs is consistent with facilitating efficient implementation and administration of the UNC.

b) Proposal 0347V – Amend NTS Exit Capacity Assignment Start Date

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 Chair summarised that the modification seeks to bring forward the start date for allowing full assignment of registered NTS Exit Capacity from 1 August 2011 to 1 June 2011, i.e. before the July 2011 Annual Reduction and Application Window. This would create choice for Shippers as to whether or not to seek full assignment prior to the July application window, and would avoid potential uncertainty as to whether or not assignment might be successful after the annual window has closed.

CS emphasised that, while there was an expectation the modification could be implemented at no additional cost, this may not prove to be the case in practice. If costs do arise, it is not certain that the benefits will exceed the costs.

The Panel determined to recommend implementation of Modification 0347V, with all voting in favour.

Panel's view of the benefits of 0347V against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Creating choice and avoiding uncertainty would be consistent with allowing efficient, market based decisions to be made, and so would be expected to facilitate the securing of effective competition.
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code	If an additional opportunity could be provided to market participants at zero cost, implementation would be consistent with efficient implementation and administration of the UNC.

c) Proposal 0349 - Introduction of a Force Majeure Capacity Management Arrangement

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 Chair summarised that the modification seeks to change the incidence of costs when holdings of entry capacity cannot be used and force majeure has been declared. At present, capacity holders are required to pay for capacity held irrespective of the fact that it cannot be utilised as a result of a force majeure situation. This modification seeks to put in place a process whereby National Grid NTS would be obliged to

buy-back the capacity concerned. Half of National Grid's costs for doing this would be met by all holders of entry capacity. The costs which are presently faced solely by those who cannot utilise the capacity concerned, through no fault of their own, would therefore effectively be partly socialised and partly met by National Grid NTS.

Some Members considered that reallocating costs in this way would be equitable, providing an incentive to National Grid NTS to minimise the non-availability of capacity and protecting User's from facing a cost through no fault of their own. However, others argued that the reallocation gives rise to the potential for inappropriate cross subsidies since it moves costs away from Users who may be able to recover those costs (for example by insuring against the risk) to Users who cannot.

A Member was unclear the Proposal could work as intended since the SO incentives and associated revenue flows are specified in the Transporter Licence and, as such, cannot be changed by a UNC modification.

Some Members considered that there was potential for discrimination between entry points in the event of force majeure affecting more than one entry point at the same time. This may be introduced since, as a result of financial exposure, National Grid NTS may be incentivised to focus efforts on the entry point(s) creating the highest costs to itself.

Seven Members voted in favour of recommending that the modification should be implemented, and three did not. The Panel therefore recommends, by majority vote that Modification 0349 should be implemented.

Panel's view of the benefits of 0349 against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	National Grid NTS would be incentivised to operate the system with a view to minimising any the cost of constraints due to force majeure (which may be discriminatory if more than one entry point affected)
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation	Equitable allocation of unavoidable costs would be consistent with facilitating competition between shippers. However, the reallocation of costs may create inappropriate cross-subsidies and so not be equitable.

arrangements with other relevant gas transporters) and relevant shippers.	Removal of the possibility of facing costs due to force majeure removes a potential barrier to entry, which is consistent with facilitating competition.
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code	None

**103.5 Receive report on status of Consents**

**103.6 Any Other Business**

C Shanley advised of a draft Consent required for the implementation of the code governance review modifications. The Consent aims to provide consolidated legal text to manage the implementation process.

**103.7 Conclude Meeting and Agree Date of Next Meeting**

The Panel noted that the next meeting is planned for 10.00 on 20 January 2010 at the Energy Networks Association