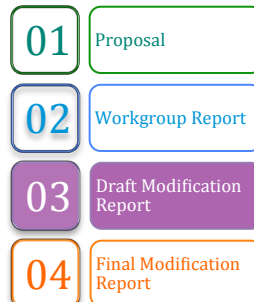


## Stage 03: Draft Modification Report

# 0372V:

## Code Governance Review Licence Compliance Changes

What stage is this document in the process?



This proposal aims to implement the changes required to address the licence compliance concerns raised by the Authority in their decision letters for the suite of Code Governance Review Modification Proposals (0318 – 0325V).



Responses invited by 10 November 2011.



High Impact:  
None



Medium Impact:  
None



Low Impact:  
Code Administrator, Joint Office UNC Panel, Shipper Users, Gas Transporters and the Authority

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- 2 Why Change?
- 3 Solution
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## About this document:

This document is a Draft Modification Report, which is being issued for consultation responses at the request of the Panel. The close-out date for responses is 10 November 2011. The Panel will consider the responses and agree whether or not this self-governance modification should be made.



3 **Any questions?**

4 Contact:  
**Joint Office**



6 [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)



10 **0121 623 2115**

11 Proposer:  
**Chris Shanley**



13 [Chris.shanley@uk.ngrid.com](mailto:Chris.shanley@uk.ngrid.com)



**01926 656251**

Transporter:  
**National Grid NTS**

Xoserve:



[commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

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# 1 Summary

## Is this a Self-Governance Modification

The Modification Panel determined that this is a Self-Governance Modification.

## Why Change?

To increase consistency between the Modification Rules and the Transporter Licence.

## Solution

National Grid has liaised with Ofgem to gain an understanding of their concerns and agreed which changes should be progressed by this proposal. National Grid proposes that the Modification Rules be amended to reflect the corresponding changes contained in the suggested legal text.

## Impacts & Costs

No major impacts or costs have been identified.

## Implementation

As a Self-Governance Modification, this modification could be implemented 16 days after a Panel decision to do so.

## The Case for Change

By increasing consistency between the Transporter Licence and the Modification Rules, implementation would be expected to better facilitate the efficient discharge of the licensee's obligations.

## Recommendations

All parties are invited to consider whether they wish to submit views regarding this self-governance modification.

## 2 Why Change?

On the 17th December 2010 the Authority approved the implementation of the following Modification Proposals that were raised by National Grid NTS to implement the Codes Governance Review proposals:

- 0318 - Code Governance Review: The approach to be taken when raising alternative Modification Proposals
- 0319V - Code Governance Review: Role of Code Administrators and Code Administration Code of Practice
- 0320V - Code Governance Review: Appointment and Voting Rights for a Consumer Representative and Independent Panel Chair
- 0321V - Code Governance Review: Approach to environmental assessments within the UNC
- 0322V - Code Governance Review: Inclusion of the NTS Transportation and Connection Charging Methodologies within the UNC
- 0323V - Code Governance Review: Self Governance
- 0324V – Code Governance Review: Significant Code Reviews
- 0325V - Code Governance Review: DN Transportation Charging Methodology and Change Governance

The Authority's decision letters (see, for example, [www.gasgovernance.co.uk/0318](http://www.gasgovernance.co.uk/0318)) include the following:

*"We have raised a number of issues with NGG regarding compliance of certain aspects of the legal text for this proposal with requirements of standard special condition A11 in NGG's licence."*

A table summarising changes suggested by the Authority is provided in Appendix 1 below.

Change is required to increase consistency between the Modification Rules and the Transporter Licence, and this modification seeks to address the issues that have been raised.

## 3 Solution

### Nature of the proposal

National Grid has liaised with Ofgem to gain an understanding of their concerns and agreed which changes should be progressed by this proposal (Appendix 1 indicates the actual changes to be addressed by this proposal). In summary, the proposed changes to the Modification Rules are:

- a number of relatively minor wording or drafting changes;
- an amendment to 2.4 (Electronic Publication) to clarify that related email notices will be sent by the Code Administrator;
- an amendment to paragraph 6.2 (Content of Modification Proposals) to reinstate aspects recently deleted by Modification Proposal 0319V;
- the removal of the 12 month timescale for completing a Workgroup Report in 8.3.2, due to its potential conflict with the timetable set in 12.9.2; and
- the introduction of a new clause to cover the licence obligation for a Transporter to raise an SCR Modification Proposal.

National Grid proposes that the Modification Rules be amended to reflect the corresponding changes contained in the suggested legal text.

## 4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives c and**

**f.**

The benefits 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.	Yes
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.	None
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	Yes

### c) Efficient discharge of the licensee's obligations.

Modifying the Modification Rules to increase consistency with Standard Special Condition A11 of the Transporter Licence avoids the prospect of differing interpretations. Implementation is therefore consistent with facilitating the efficient discharge of the licensee's obligations.

### f) Promotion of efficiency in the implementation and administration of the Code

The Codes Governance Review sought to support efficient administration of the UNC and other major codes by establishing a common modification process. Modifying the UNC to increase consistency with the licence is also expected to increase consistency with other codes, to the extent that the wording in other codes and licences is consistent with the Transporter Licence. Implementation may therefore be expected to facilitate efficient administration of the UNC since parties impacted by multiple codes will only need to be familiar with one form of terminology.

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## 5 Impacts and Costs

### Consideration of Wider Industry Impacts

Implementation would not be expected to be inconsistent with any wider industry developments.

### Costs

Indicative industry costs – User Pays	
Classification of the Proposal as User Pays or not and justification for classification	
The proposal is not Users Pays since no User Pays service is proposed or changed.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
N/A	
Proposed charge(s) for application of Users Pays charges to Shippers	
N/A	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
N/A	

### Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"><li>• None</li></ul>
Operational Processes	<ul style="list-style-type: none"><li>• None</li></ul>
User Pays implications	<ul style="list-style-type: none"><li>• None</li></ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"><li>• None</li></ul>
Development, capital and operating costs	<ul style="list-style-type: none"><li>• None</li></ul>
Contractual risks	<ul style="list-style-type: none"><li>• None</li></ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"><li>• None</li></ul>



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**Where can I find details of the UNC Standards of Service?**

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In the Revised FMR for Transco's Network Code Modification

**0565 Transco Proposal for Revision of Network Code Standards of Service** at the

following location:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"><li>• None</li></ul>
Development, capital and operating costs	<ul style="list-style-type: none"><li>• None</li></ul>
Recovery of costs	<ul style="list-style-type: none"><li>• None</li></ul>
Price regulation	<ul style="list-style-type: none"><li>• None</li></ul>
Contractual risks	<ul style="list-style-type: none"><li>• None</li></ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"><li>• None</li></ul>
Standards of service	<ul style="list-style-type: none"><li>• None</li></ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"><li>• Some changes are required and are detailed in the suggested text for this proposal.</li></ul>
UNC Committees	<ul style="list-style-type: none"><li>• None</li></ul>
General administration	<ul style="list-style-type: none"><li>• The Joint Office would be required to ensure that processes reflect the changes to the Modification Rules.</li></ul>

Impact on Code	
Code section	Potential impact
Uniform Network Code – Modification Rules	Medium

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	

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Impact on UNC Related Documents and Other Referenced Documents	
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

## 6 Implementation

### Implementation Date

As a Self-Governance Modification, this modification could be implemented 16 days after a Panel decision to do so.

## 7 The Case for Change

Nothing additional to the earlier sections of this Report.

## 8 Legal Text

### Text

The legal text provided for this modification has been published as a separate document (due to its size) at: [www.gasgovernance.co.uk/0372](http://www.gasgovernance.co.uk/0372).

## 9 Recommendation

All parties are invited to consider whether they wish to submit views regarding this self-governance modification. The close-out date for responses is 10 November 2011. Responses should be sent to [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk). A response template that you may wish to use is at: [www.gasgovernance.co.uk/0372](http://www.gasgovernance.co.uk/0372).



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**Consultation Ends**

On 10 November 2011

## **Appendix 1 – Table of Ofgem comments and proposed changes to the Modification Rules**

### **Modification 0319V: Code Administrators & Small Participants**

<b>Paragraph</b>	<b>Comment</b>	<b>Proposal</b>
1.5.1	The words "but not limited to" are omitted – required for compliance with standard special condition A11(9)(aa). Assistance does not appear to extend to Consumer Representatives as reference is to "Users" – required for compliance with standard special condition A11(9)(aa).	Amendments to be made to 1.6
1.5.1(d)	Reference to "Modifications" omitted - required for compliance with standard special condition A11(9)(aa)(iv).	Amendments to be made to 1.6
Definition "small participant"	In (a) reference to "legitimate need of assistance" should be "particular need of assistance" – required for compliance with definition of 'small participant' in A11(24). The words legitimate and particular have different meanings. Arguably 'legitimate' is narrower than 'particular'.	Amendment to be made to definition.
2.4 electronic publication	How does this interrelate with the particular obligations to draw attention to proposals to small participants (SSLC A11(9)(d)) and provide assistance to small participants / materially affected parties / other parties (SSLC A11(9)(aa) and (9)(ac)(iii), noting the latter is subject of another proposal) if electronic publication on the website discharges any obligation to send, provide or make available any information to another person? Presumably where assistance is required and you are required to provide information, you will at least send the link to the information to the relevant party?	Amendment required to clarify that email notices from the JO will be sent to all those that have provided email contacts to the JO – major notifications only (Mod proposals, workgroups, etc.)
6.2	We consider that where the detail which has been struck through is consistent with the CoP, it should be reinstated to assist parties' understanding of the modification procedures. In fact, we suggest generally it may be best/prudent to keep in the all the requirements and specifically state that these apply unless inconsistent with the COP, for example, section 6.2. (Content of Modification Proposals) could be reinstated and include a provision that paragraph 6.2 applies unless inconsistent with the COP or otherwise provided for in the COP?	It is proposed that aspects of the old deleted section 6.2 be re-instated but some revisions should be made to reflect the CoP.

8.3.2	The 12 month timescale set out in this paragraph is not consistent with either the COP and should be amended to comply.	It is proposed that the 12 month timescales be removed and 8.3.2 be amended accordingly.
9.3.3(b)	The test set out in SSLC A11 is "better facilitate achievement of" the relevant objectives and not "better achieve" the relevant objectives. We consider this paragraph should be therefore amended.	9.3.3 (b) to be amended.
9.3.8	We note that you have amended this in light of our comment. However we think the words "with the aim of sending" should be "and shall send" so that the obligation is clear and the reference to the "Authority directs" should be a reference to "Authority may direct" and for consistency and include "pursuant to standard special condition A11" for clarity.	9.3.8 to be amended.
9.4.1	The test set out in SSLC A11 is "better facilitate achievement of" the relevant objectives and not "better achieve" the relevant objectives. We consider this paragraph should be therefore amended.	9.4.1 to be amended.

#### **Modification 0320: Voting rights & Independent Chair**

<b>Paragraph</b>	<b>Comment</b>	<b>Proposal</b>
Definition of "Panel Chairman"	Should refer to "independent" in line with SSLC A11(6)(d)(i).	Definition to be amended.
4.1.3 and 4.4.2(e)	In line with previous comment, which was accepted, the reference to "individual" should be reference to "representative".	It is proposed that 3.8 (Consumer Representatives) be amended to address this comment.

#### **Modification 0321: Environmental Assessments**

<b>Paragraph</b>	<b>Comment</b>	<b>Proposal</b>
9.4.1(b)	We consider that to comply with SSLC A11(15)(a)(iv)(bb), this paragraph should only refer to "in the opinion of the Modification Panel" or refer to both the Panel's opinion and the proposer's opinion.	The amendment to 9.4.1 was not included in the consolidated text, so no change can be made/is necessary

**Modification 0322: NTS Charging Methodologies**

Paragraph	Comment	Proposal
Definition of "NTS Charging Methodology"	Reference to standard special condition 4B should be standard condition 4B.	An amendment was made to correct the error in the consolidated text implemented by the CGR Consent to Modify. No further change is necessary.
Conflicts	This proposal amends certain paragraphs which are being completely deleted/or substantially amended by 0319V i.e. paragraph 6.2.1 and 9.41.	6.2.1 and 9.4.1 changes proposed by 0322 have been included in the consolidated text, so no further change is required.

**Modification 0323: Self Governance and Appeals**

Paragraph	Comment	Proposal
2.1 Definition of "Appeal Criteria"	This definition is not in compliance with SSLC A11(15E). There should be an "or" in between (i) and (ii) and an "and" is required after (ii)(2). As drafted all the criteria listed need to be fulfilled to raise an appeal however the licence does not require all the criteria to be fulfilled.	Amendment to be made to definition
6.6.2	The reference to the Authority <u>accepting</u> a Self-Governance Statement is not in compliance with SSLC A11(15D)(c) which does not require this. SSLC A11(15D)(c) is a veto type provision, the Authority may reject the Self-Governance Statement by the determination date but if it is not rejected by that date, it will not expressly accept it either.	Reference to accepting to be removed and the words "accept or" to be deleted.



9.3.9(a)	We remain of the view that the paragraph should reflect the licence requirement (SSLC A11(15D)(d)) to consider the relevant objectives: whether or not the Self-Governance Modification Proposal should be implemented on the basis that it would (or would not), as compared to the then existing provisions of the Uniform Network Code and any alternative modification, better facilitate the achievement of the applicable objective(s). We note you state that standard proposals are evaluated against the relevant objectives and same should apply to self-governance proposals. However, reference to panel determination against relevant objectives is expressly made in paragraph 9.4.1 and 9.3.3 in relation to standard proposals except for self-governance proposals under modification proposal 0319V. Therefore, if 0319V is approved, for consistency we think reference should be made in 9.3.9(a).	9.3.10 to be amended to reflect this comment.
13.6	If the Authority rules that the Panel's determination has no further effect i.e. quashes it, it will be remitted back to the Panel for decision or the Authority will decide it. Therefore, to comply with the process envisaged by SSLC A11(15D)(e)(ii), this paragraph requires amendment.	Amendments to be made to 13.6 to 13.10.
13.7	This paragraph is not a step required by the appeals process set out in SSLC A11(15D) to (15E).	See above.
13.9	The modification panel's determination is not treated as its recommendation in all cases. It is only so in the case of 13.9(b) – where the Authority quashes the panel determination and takes the decision itself. To comply with SSLC A11(15F)(b) this paragraph requires amendment so that the panel's determination is only treated as its recommendation in the case of 13.9(b).	See above

**Modification 0324V: SCRs**

Paragraph	Comment	Proposal
New paragraph	<p>We note your view that the obligation to raise an SCR modification proposal is in the licence (SSLC A11(10)(aa)). However, SSLC A11(15C) requires that the Network Code Modification Procedures themselves must provide for this too. We therefore consider that the requirement on the Transporter to raise an SCR proposal should be express in the UNC to comply with. In your consolidated draft text of 15 September 2010 this was contained in paragraph 6.1.3 and we consider that this should go back in with following amendments:</p> <p>(1) include a reference to "and/or the Individual Network Code in accordance with that direction" after the reference to "Uniform Network Code" and</p> <p>(2) include reference to "such a proposal shall proceed in accordance with the Modification Procedures" for avoidance of doubt.</p>	New paragraph to be inserted.
6.1.4 and 6.1.5	SSLC A11(15A)(b) provides that a mod falling within an SCR cannot be raised unless it is a mod raised by the licensee pursuant to an SCR i.e. for example another SCR. This is not reflected in 6.1.4 and 6.1.5 and is required to be for compliance with SSLC A11(15A)(b).	Amendment to be made to include link to 15A (b).

<p>6.6.2 (now 6.7.3)</p>	<p>SSLC A11(15B)(c) provides that upon giving the required notice to the Authority, the panel must not proceed with the mod if the Authority directs. Therefore 6.6.2(b) is not in compliance with this licence provision and should be deleted. The Authority is not required to positively direct that a proposal proceeds, it should proceed unless the Authority directs otherwise.</p> <p>Therefore, to comply with the licence provision we consider that 6.6.2 should be amended to the effect that: "Where a direction from the Authority under paragraph 6.6.1 not to proceed with the Modification Proposal or Third Party Modification Proposal <b>that relates to the subject of an ongoing Significant Code Review</b> is received by the Secretary, that Modification Proposal or Third Party Modification Proposal shall become a Significant Code Review Suspended Modification Proposal <b>and shall continue to be so until either the end of the Significant Code Review Phase or the Authority directs otherwise (having taken into account, among other things, the urgency of the subject matter of such proposal)</b>. Otherwise the Modification Proposal or Third Party Modification Proposal shall proceed in accordance with the Modification Procedures."</p> <p>Please note that the direction may be made at any time during the modification process. The revised paragraph will allow for this and also means that paragraph 6.6.4 is no longer necessary.</p> <p>Further paragraph 6.6.3(b) also applies where the Authority has not previously made a determination – so in the case of 6.6.2 (SSLC A11(15A)). Therefore to comply with the licence 6.6.2 will require amendment.</p>	<p>Amendments to be made to 6.7.3 &amp; 6.7.2. 6.7.4 to be removed</p>
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