

CODE MODIFICATION PROPOSAL No 0325
Code Governance Review:
DN Transportation Charging Methodology and Change Governance
Version 3.0

Date: 12/08/2010
Proposed Implementation Date: 1 November 2010
Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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 however, the Proposer aspires for the new governance arrangements to be in place for 1 November 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 (UNC) setting out the UNC charging methodologies;

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

- 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:
 - 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 Distribution Network Operator (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 UNC³; and
- the UNC Modification Rules are amended to reflect that
 - the Transporters must convene meetings (not less frequently than every three months) of the charging methodology forum (as defined in Standard Special Condition A11 (24) of the Gas Transporter Licences) being the ‘DN Charging

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 For information, Annex A details the Distribution Networks Transportation Charging Methodologies as at the date of submission of this Proposal. If the Authority directs that this Proposal be implemented, Annex A will be deemed to contain the prevailing Methodology as at the date of implementation.

⁴ Chairman’s Guidelines will be superseded by the Code Administration Code of Practice in the event of implementation of UNC Modification Proposal 0319.

Methodology Forum'. It is proposed that this Forum shall be administered and operated in the same way as current UNC Workstreams (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 National Transmission System (NTS) Gas Transporter Licence, it is proposed that the UNC Modification Rules are amended to reflect that:

- insofar as reasonably practicable, the relevant Transporter will provide information (for the purpose of preparing a proposal to modify a UNC charging methodology in respect of its network) reasonably requested by a Materially Affected Party;
- 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);
- any proposal to modify a UNC Charging Methodology must not conflict 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 five 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.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

It is not proposed that this proposal is subjected to Urgent procedures.

- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

Following the extensive industry debate and discussions undertaken in respect of the Review, the proposer believes that this Proposal is sufficiently developed in order for it to proceed to consultation.

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 this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

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.

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)).

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).

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

a) The implications for operation of the System:

No such impact has been identified.

b) The 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) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

No additional cost recovery is proposed at present.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

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 extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Implementation is not required to enable such compliance.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

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

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

The proposer is not specifically aware of any such implications.

b) The development and capital cost and operating cost implications

The proposer is not specifically aware of any such implications.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

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 the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, 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 the Transporters

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

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

No such representations have been received.

13 Detail of all other representations received and considered by the Proposer

No such representations have been received.

14 Any other matter the Proposer considers needs to be addressed

No additional matters have been identified.

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

It is proposed that in the event of the appropriate direction from the Authority that this Proposal is implemented on 1 November 2010.

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Modification Rules

Section(s)

Proposer's Representative

Chris Warner (National Grid Distribution)

Proposer

Chris Warner (National Grid Distribution)