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Your Ref:
Our Ref: Net/Cod/Mod/730
Direct Dial: 020 7901 7355
Email: nick.simpson@ofgem.gov.uk

Dear Colleague,

7 November 2005

UNC modification proposal 010 (formerly Network Code modification proposal 735): 'Amendment to the minimum notice required for UK link changes'

Ofgem¹ has carefully considered the issues arising from Modification Proposal 010, 'Amendment to the minimum notice required for UK link changes' and has decided to direct National Grid Gas (NGG)² to implement the modification, as we believe that it will better facilitate the achievement of the relevant objectives of the Uniform Network Code (UNC). In this letter we explain the background to the Modification Proposal and outline the reasons for making our decision.

Transition from National Grid Gas's Network Code to the UNC

This modification proposal was originally raised in respect of Transco's Network Code, and followed the modification rules pertaining to that code. Following the implementation of modification proposal 745³, and in accordance with the Part IV, paragraph 2.1 of the UNC transitional rules, this modification proposal is deemed to be made in respect of the UNC.

At its meeting of 3 May 2005, the UNC Modification Panel agreed to the re-numbering of live modifications carried over into the UNC under the transitional rules, with modification proposal 735 being re-numbered as UNC modification proposal 010. Ofgem has therefore considered this modification proposal against the relevant

¹ Ofgem is the office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

² On the 10 October 2005, Transco Plc formally changed its name to National Grid Gas Plc (NGG).

³ See www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11299_745_letter.pdf

objectives of the UNC, as set out in standard special condition A11 of relevant GT licences.

On the 10 October 2005, Transco Plc formally changed its name from Transco Plc to National Grid Gas Plc (NGG). Therefore in this decision letter Ofgem refers to Transco under its new company name of National Grid Gas (NGG).

Background

There are three classes⁴ of UK Link Modifications under the current UK Link Modification arrangements which vary by the severity of operational or system change required and by costs or other impacts to UK Link Users. A class 3 UK Link modification would require more operational or system changes and, or would have a higher impact on costs to UK Link Users than a class 1 or 2 UK Link modification⁵.

Under a class 1 UK Link Modification⁶ the Draft Modification Report (DMR) or Final Modification Report (FMR) need not contain an indicative date for implementing the modification. Instead, when Ofgem approves the Modification the implementation date is taken to be the soonest practicable opportunity at which the Transporter can implement the modification following an Ofgem decision.

Under a class 2 and class 3 UK Link Modification, which involve a system related issue, the implementation date in the DMR or FMR will typically have a lead time of three months. However, there is a degree of flexibility in the modification process which allows for the Transporter with agreement by the UK Link Committee to extend or shorten the lead times. For instance, the lead times prior to the implementation of system changes to the Review of Gas Metering Arrangements (RGMA) were extended in order to allow for a more co-ordinated implementation. However, in circumstances where the Transporter does not provide UK Link Users with an indicative timetable for implementing a system related modification, and where the implementation date for the modification timetable is less than 3 months from the giving of such notice, then section 8.6.1 of the Uniform Network Code (UNC) provides for UK Link Users to be provided with £500 compensation.

The Modification Proposal

Modification Proposal 735 was proposed as a result of a concern that the current UK Link modification arrangement creates difficulties

⁴ Class 1, Class 2 and Class3 Modifications

⁵ As described further in section 8.2 of the UNC- Modification classes

⁶ A manual, or Transporter system modification, which has no adverse operational or other adverse impact on any UK Link User, and which does not require any UK Link User to incur any costs.

when implementing changes at short notice. It was considered that this was due to the fact that the arrangements do not consistently allow most Parties to take into account their own internal existing IT rolling programmes.

Modification Proposal 735 proposes to modify Section U of the Network Code (now section 8.6.1 (b) of the UNC) in order to amend the normal minimum implementation period for any change appearing on the UK Link implementation plan. The proposed modification would place an obligation on NGG to provide UK Link Users with an indicative timetable for implementing a modification. The modification proposal implementation timetable would be; not less than 6 months minimum for changes impacting systems and software; 4 months minimum for changes impacting operational procedures; or 2 months minimum for changes to documentation only. The minimum period is calculated from the date of agreement by the UK Link Committee. The UK Link Committee can reduce these minimum periods at its discretion.

Modification Proposal 735 also provides for the UK Link Committee to agree 3 formal releases per year, proposed for February, June and November. Change initiators are responsible for proposing implementation dates and are requested to align these with the release schedule unless circumstances dictate otherwise.

Revision to the legal text

NGG did not originally provide legal text with the FMR for Proposed Modification 735. Therefore, after discussions with Ofgem, a revised FMR was provided on the 27 June 2005 which included legal text.

In reaching its decision on Modification Proposal 735, Ofgem contacted the Proposer to confirm whether the legal text fulfilled the intent of the modification. The Proposer considered that the revised legal text did not meet the intent of the proposed modification and on the 9 August 2005, an FMR on Modification Proposal 735 was re-circulated to parties with a revised legal text.

The UNC Panel met on the 1 September 2005, to consider whether the revised FMR warranted further industry consultation. During the discussion, concerns were raised that the legal text did not match the intent of the proposal. The Panel unanimously agreed to defer a decision on whether further consultation was warranted until clarification had been sought.

Prior to the following UNC Panel meeting, the Proposer confirmed that the revised legal text did match the intent of the Modification Proposal. In the UNC Panel meeting on the 15 September 2005 the Panel considered there was no need to re-consult.

Respondents' views⁷

NGG received eight responses to its consultation on Proposed Modification 735. Seven respondents supported the Proposed Modification. One respondent did not support the Proposed Modification.

Release dates

The seven Shippers who were in support of the Proposed Modification, agreed that under the current UK Link minimum notice period, parties at times were required to react quickly to implement NGG changes. These respondents further considered that parties did not always have the opportunity to assess the impact of NGG's proposed changes on their own systems, and therefore agreed that the adoption of a minimum implementation period and a structured scheduled release, as proposed under Proposed Modification 735 will reduce risk and thereby the costs by ensuring Users have sufficient time to plan resources for implementation.

The respondent who did not support the Modification Proposal did not provide a comment with regard to the release dates.

Bundled changes

The Shippers that supported the Proposed Modification all agreed that a bundled release, 3 times a year would be beneficial to the User community. These respondents did not agree with NGG that moving to fixed release schedule will create periods of peak workload. One respondent considered that the converse could also be true, that the current arrangements may leave market participants exposed to meeting unplanned requirements associated with such peak workloads. These respondents therefore considered that Modification Proposal 735 would enable all stakeholders to plan and operate more effectively. The respondents therefore considered that NGG could benefit from a more structured approach to system development and implementation.

The Respondent who did not support the Proposed Modification considered that having three pre-determined scheduled releases as proposed under Modification Proposal 735, will restrict Shippers and NGG in implementing changes outside the release window, may cause unnecessary delays (e.g. if the release window had just closed) and incur additional costs through the provision of IT resources (e.g. due to longer lead times).

⁷ See the Gas Transporters Information Service (GTIS) site - <https://gtis.gasgovernance.com>

Definition of change

Several of the respondents who supported the Modification Proposal acknowledged that some aspects of the proposal required further clarification either by legal text or otherwise. For example, one respondent considered that defining the severity of the change and hence the timescales of notice required for that change could be subject to interpretation. The respondent therefore considered that such timescales could be determined by the UK Link Committee without prejudicing the system modification process. Another respondent considered that in cases where a 6 month notice might be given for changes impacting systems and software, it will be necessary to establish to whom the system and software changes will apply. The respondent therefore considered that clarification is needed in regards to whom, and which committee will decide whether or not a change will impact systems and software.

Alignment

A number of Shippers agreed that the alignment of the SPAA and Electricity release dates proposed under the Proposed Modification was appropriate. Some respondents considered that the alignment will enable Parties to effectively plan system development and implementation. Other respondents considered that the alignment will better facilitate changes to the systems of Shippers and Suppliers emanating from the wider processes, for example the Customer Transfer Programme (CTP) and Supply Point Administration Agreement (SPAA).

The respondent who did not support the Modification Proposal cited that there were a number of Shippers that were either not signatories of SPAA, or did not have activities in the retail electricity market. The respondent therefore did not consider that the volumes of related changes will be equal across all Shippers, and therefore did not consider that it was appropriate to support the proposed changes, if the changes did not provide benefits across the entire industry.

NGG's view

Release dates

NGG considered that the current arrangements for implementing UK Link modifications are effective and efficient, and that the flexibility in the arrangements allows for a large percentage of the modification changes to be implemented at the User's discretion and not tied down to NGG's implementation dates.

NGG did not consider that the proposed fixed release would benefit the wider User community, or help all parties schedule release dates in an efficient, economic and orderly manner. Instead NGG considered that the proposed fixed release would create unavoidable periods of peak workload followed by potentially quiet periods of inactivity, whilst incurring additional associated costs.

In addition, NGG considered that to ensure that the modification implementation process is efficient; clarification was needed to the type of change required and with whom, or which committee would decide the relevant notice period.

Bundled changes

NGG considered that under the current arrangements changes were bundled wherever appropriate. NGG considered that if the flexibility of implementation is withdrawn, it may lead to circumstances where a number of project resources are retained for small releases. NGG therefore considered that this would incur associated additional costs and would be an inefficient use of resources.

Alignment

NGG further queried how the three proposed SPAA implementation dates of February, June and November were defined, and did not consider that the Network Code should fit the scope of the smaller SPAA.

Alternative

NGG did not consider that Modification Proposal 735 was required and instead considered the proposal should have been a change in working practices rather than a change to Network Code. However, NGG agreed that some UK Link modification changes require longer than the current 3 Month notification, and therefore proposed to produce a process that will allow the UK-Link Committee to have more input regarding implementation dates, whilst allowing NGG to bundle changes where appropriate. NGG considered that this would sufficiently address the concerns of the UK Link Committee, whilst ensuring an effective and efficient working practice.

Ofgem's view

Ofgem considers that it is important that all parties are able to implement modifications in an economic and efficient manner; in this respect Ofgem considers that it may not be appropriate for the implementation of industry wide systems to be determined largely by the working practice of one party or a section of the industry regardless of their size or the manner in which they may have conducted their working practice in the past. Ofgem therefore

supports Modification Proposal 735 and welcomes the increased role for the UK Link Committee in implementing system and software changes.

Ofgem does not consider that Modification Proposal 735 will unduly restrict Shippers and NGG from implementing changes. Ofgem considers that the introduction of the implementation timetable and the three yearly releases in February June and November may provide a clearer structure to the normal minimum implementation period for changes appearing on the UK Link implementation plan. It would also provide all Users with more clarity and transparency in implementing modifications, and therefore may enhance the efficient operations of the modification implementation procedures.

In addition, Ofgem considers that Modification Proposal 735 may provide greater flexibility for the UK Link Committee and the UNC Panel to reduce the minimum implementation period at its discretion.

Ofgem is aware that scheduled releases are commonplace in the electricity industry, particularly the MRA and BSC, although in the case of the latter they are a matter of working practice rather than being hardwired into the Code. Similarly, the SPAA includes provisions for three scheduled releases a year. Ofgem acknowledges that it can be appropriate to harmonise processes as long as it does not restrict the efficient implementation of modifications.

Ofgem has noted the comments raised in regards to further clarification of the severity of the each system and software change required, and the timescales of notice required for that change. Ofgem considers that further clarification may be required, and considers that given the current baseline, this does not remove the benefits of this Modification Proposal against the Applicable UNC Objectives. However, Ofgem encourages further clarity to be sought, wherever required, through UK Link or UNC Committee or through the modification process.

Ofgem's decision

For the reasons outlined above, Ofgem has decided to direct NGG to implement this modification as we consider that it would better facilitate the achievement of the relevant objectives of the NGG network code, as outlined under amended standard condition 9 of its GT licence.

If you have any further questions regarding this letter please do not hesitate to contact me on the above number or Ndididi Njoku on 020 7901 7157.

Yours sincerely,

Nick Simpson
Director, Modifications