

**Modification Report**  
**Extending established Uniform Network Code governance arrangements to include the**  
**Network Code Operations Reporting Manual referenced in Section V9.4**  
**Modification Reference Number 0053**  
Version 4.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 9.6.

**1. The Modification Proposal**

The Proposal, as amended by the Proposer, is as follows:

A number of procedural documents which set out how Transporters and Users implement Uniform Network Code (UNC) obligations are not currently subject to full joint industry governance arrangements. This is despite the fact that many of the matters outlined in these documents can and do have a significant impact on Users' commercial positions and the quality of service Shippers-Suppliers are able to provide to their customers.

Although many of these documents are referred to in the UNC they are typically managed by the Transporters outside the UNC governance processes with only the Transporters being allowed to propose changes to the documents. Greater visibility of these documents is also desirable. Although updated documents are circulated and consulted on from time-to-time, these are not readily available to users; indeed new users or potential entrants would not necessarily be aware the documents exist to ask for them in the first place.

This Modification Proposal builds on the principles established by Modification 730 to the Network Code and proposes extending the UNC governance arrangements to include the Network Code Operations Reporting Manual which details a number of reports containing operational information administered by National Grid NTS.

With respect to the Network Code Operations Reporting Manual, it is proposed that the UNC be modified:

- to require publication of the Manual on a publicly accessible industry website, such as the Joint Office of Gas Transporters' website
- to require creation of a new version of the manual following any revision, with each version numbered sequentially, and with earlier versions continuing to be made available by the Transporters on request
- to enable Transporters or Users to propose revisions to the Manual by written notice to the Uniform Network Code Committee
- to prevent any revisions being made to the Manual without approval by majority vote of the UNC Committee unless the modification procedures were followed
- without fettering the discretion of the committee, to permit the UNC Committee if it considers it appropriate (again subject to a majority vote) to refer any proposed change to a relevant sub-committee, which would in turn be required to consider the matter and make recommendations to the UNC Committee

- in the event of the failure by the UNC Committee to come to a decision then the change should be subject to the UNC modification procedures unless the UNC Committee decides otherwise

Implementation of this Modification Proposal would allow Users as well as Transporters to instigate revisions to the Network Code Operations Reporting Manual. However the implementation of proposed revisions would only be allowed by first formally satisfying industry stakeholders. Such arrangements would be consistent with approval processes established in industry codes elsewhere. It is also consistent with Ofgem's principles of good governance set out in their June 2003 consultation document "Gas Retail Governance – Further Consultation" and in their decision letter regarding Modification 730 to the Network Code. The proposal is intended to provide an overall more efficient mechanism for managing change to the Manual but is not intended to preclude a UNC Party from using the standard modification procedures to raise a change should they so desire.

## **2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

The Proposer suggested that implementation of this Proposal would be expected to better facilitate the relevant objectives by improving transparency and accountability. It would be a means of ensuring efficient consultation which would increase the certainty and confidence of all UNC parties, thereby facilitating competition between shippers and between suppliers. Further, increasing the efficiency and transparency of consultation would contribute to the promotion of efficiency in the implementation and administration of the UNC.

Implementation might also be expected to facilitate more efficient change management of processes associated with the UNC and therefore potentially facilitate the reduction of operating costs for the industry, consequently facilitating competition between shippers and between suppliers. Implementation might also reduce risk associated with insufficient visibility and governance of the Network Code Operations Reporting Manual, and any such reduction in risk would be expected to further facilitate the securing of effective competition.

BGT agreed "*that the implementation of this Modification Proposal would further relevant objectives:-*

- (d) the securing of effective competition between Shippers and Suppliers and*
- (f) the promotion of efficiency in the implementation and administration of the Uniform Network Code by improving the visibility and transparency of these processes and by affording access by user to the process by which beneficial changes may be introduced".*

EON also believes the proposal "*will better facilitate the relevant objectives (f) the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code and relevant objective (d)the securing of effective competition between relevant shippers, suppliers and/or between DN Operators and relevant shippers through improving transparency and accountability and creating a more level playing field, enabling both Users and Transporters to propose changes to the relevant documents".*

SGN believes implementation of the Modification Proposal “*would better facilitate the relevant objectives*”.

TGP concluded that “*the proposal clearly facilitates the Relevant Objectives specified within the Gas Transporters Licence by improving transparency and accountability*”.

STUK states the proposal “*would better facilitate the relevant objectives by improving transparency and accountability and facilitate better change management and competition between shippers and suppliers*”.

NG UKD “*believe ... the Proposal does not better facilitate the ‘relevant objectives’ specified within the Gas Transporters Licence, specifically it does not ‘facilitate the promotion of efficiency in the implementation and administration of the network code and or the uniform network code’.* NG UKD went on to explain that “*abbreviated*” governance “*is not necessarily more efficient in the long term, if ... decisions of the UNC Committee were subsequently challenged by Modification*”.

*The SME notes that in their response NG UKD explained that they were particularly concerned that a UNC Committee could have “a right of veto” over future related Proposals. However this is not the case. The proposal states that “in the event of a failure by the UNC Committee to come to a decision then the change should be subject to the UNC modification procedures”. This is intended to allow the UNC Committee to subject a proposal to wider debate where they feel this would help them reach a decision. However, where they feel there would be no obvious benefit in doing this, the proposal provides a get out i.e. “unless they determine otherwise”. For the avoidance of doubt the last paragraph under section 1 states this is “not intended to preclude a UNC party from using the standard modification procedures to raise a change”. In other words, the UNC Committee would not have the authority to prohibit any Transporter or Shipper from raising a UNC Modification Proposal proposing a change to the UNC at any point in time.*

NG NTS stated “*The lack of clarity in respect of governance does not clearly demonstrate that this Proposal would better facilitate the obligations provided under the Gas Transporters Licence, Standard Special Condition A11(f), ‘the promotion and efficiency in the implementation and administration of the network code and/or the uniform network code’.*”

### **3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

Implementation of this Modification Proposal should not have any effect on security of supply or operation of the Total System.

NG NTS agreed that, “*in some instances ensuring that documents are consistent across Transporters may mitigate perceived adverse affects of market fragmentation.*”

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

**a) implications for operation of the System:**

Implementation of this Proposal would not affect operation of the System.

*TGP “agree that there are no operational or systems impacts as a result of the implementation of the modification”.*

**b) development and capital cost and operating cost implications:**

No material development or capital cost implications have been identified.

*TGP believes that “there should be no cost implications other than to provide the relevant facility to publish and version control the manual on a publicly accessible industry website. This is a concept that the Joint Office have already informally taken forward”.*

The SME notes that this document is currently available on the gas governance website.

**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 mechanism is proposed.

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

No such consequences have been identified.

**5. 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**

The Proposer suggested that implementation may reduce the level of contractual risk for each Transporter by improving transparency and governance.

*NG UKD disagrees “Section 5 of the Draft Modification Report suggests that the Transporters’ level of contractual risk may reduce if the Proposal were implemented. We would question the validity of this statement given that the Proposal allows non-Transporter parties to instigate change to the Network Code Operations Reporting Manual whereas currently only National Grid NTS has this ability”.*

**6. 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**

No systems implications have been identified.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Implementation could help reduce administrative costs and contractual risk for users by providing a mechanism which can help ensure that the Operations Reports are relevant to User needs. This proposal would also provide more robust governance, arrangements, which would improve transparency and accountability, give greater confidence and certainty in arrangements and facilitate competition between shippers and between suppliers.

STUK believes that *“this proposal would reduce the risks associated with insufficient visibility of the Network Code Operation Manual”*.

TGP *“support the statement that implementation could help reduce administrative costs and contractual risk for users by providing a clear and transparent mechanism to help ensure that the Operations Reports are relevant to User needs, Users being the prime beneficiaries of the Reports”*.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

Implementation would provide an opportunity for Users other than Transporters to sponsor changes put forward by non UNC parties, ensuring wider industry involvement or participation.

**9. 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**

No such consequences have been identified.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

- allows Users as well as Transporters to propose changes to the reports, which are produced primarily for the benefit of Users and hence potentially make the reports more relevant to User requirements.
- prevents changes being made to the reports without approval of the UNC Committee (except where the normal Modification Procedures are followed or material changes are referred to Ofgem under V9.4.5)
- facilitates efficient consultation which will increase the certainty and confidence of UNC parties in arrangements, leading to economic and efficient operation of the pipeline system and the securing of effective competition between shippers and suppliers
- Improved clarity and transparency of arrangements through publication of current version of the document on the industry website with appropriate version control

- contributes to the promotion of efficiency in the implementation and administration of the UNC

RWE in support of the modification proposal considers *“that the incorporation of these documents under the UNC will assist transparency and accountability, which will help to increase Users confidence as the consultation process will be inclusive and efficient”*.

STUK agreed, *“that the Network Code Operations Reporting Manual would benefit from full joint industry governance so that all Transporters and Users can propose revisions, with changes only being made by majority vote of the UNC committee”*.

TGP believe *“the Draft Modification Report clearly sets out the advantages that implementing this proposal will bring”*.

### **Disadvantages**

- gives responsibility for certain decisions to the UNC Committee rather than a neutral party, such as Ofgem

NG UKT expressed concern that proposals would change the status of the UNC committee “from a reviewing body to a governing body” and that this could “dilute” the current decision making role of the Authority.

NG UKD stated that they “do not believe it is appropriate to remove Ofgem from being the arbiter in the change process”. They believed this would “reduce the independence of the decision where this is ... undertaken by the UNC Committee”.

TGP *“do not believe that the disadvantage highlighted in the report, such that responsibility for the administration of change being given to the Uniform Network Code (UNC) Committee rather than Ofgem, warrants concern with respect to the Operations Reporting Manual. The arrangements proposed by the Modification, such that the UNC Committee has open to it the option to refer any proposed change to a relevant sub-committee, should provide a route to ensure full transparency and discussion by the industry should any proposed change be unclear or contentious”*.

The SME notes that in the decision letter for 0730 Ofgem welcomed the fact that changes to procedural documents would be subject to the approval of Network Code parties. They stated this was appropriate given the technical operational nature of the documents concerned and that this was consistent with Ofgem’s desire to adopt “more light handed regulation”.

## **11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

<u>Organisation</u>	<u>Abbreviation</u>	<u>Position</u>
British Gas Trading	BGT	For
E.ON UK	EON	For
National Grid Distribution	NG UKD	Against
National Grid Transmission	NG NTS	Comments
RWE Npower Plc	RWE	For
Scotia Gas Networks	SGN	For
Scottish and Southern Energy	SSE	For
Statoil UK	STUK	For
Total Gas & Power Limited	TGP	For

EON states that *“The proposed arrangements would also ensure consistency with Ofgem’s principles of good governance set out in their June 2003 consultation document, ‘Gas Retail Governance – Further Consultation’”*.

SGN commented *“ Whilst the ...proposals seek to amend governance arrangements and involve the UNC Committee in decision making, we note that this does not in any way prevent a party from seeking to implement changes through the UNC formal modification process, requiring Authority approval.”*

SSE believes *“The proposed changes to the governance arrangements to include the Network Code Operations Reporting Manual is a pragmatic solution usefully developed via the Workstream”*.

TGP, having agreed the proposal clearly facilitates the relevant objectives, added that it is also *“ consistent with Ofgem’s principles of good governance set out in their June 2003 consultation document "Gas Retail Governance – Further Consultation”*.

Although NG UKD *“is supportive of a number of common elements detailed within the proposal, specifically concerning publication of the five documents on a publicly accessible industry website, and the appropriate version control applied to each”* NG UKD opposes implementation due to the presence of other aspects.

NG NTS acknowledge *“that for the purposes of providing greater transparency there is merit in ensuring ... documents and any updated versions are available through one common website”*.

NG NTS however highlighted that *“This Proposal seeks to facilitate User proposed amendments. We have concerns that in the absence of clear governance procedures, Transporters may be required to provide additional information, and/or change the timetable for the provision of information, without due consideration of the impacts such changes may have on other members of the community, or the development and implementation costs such changes may require”*.

## **Legal Text**

The Proposer has not provided draft text.

The Governance Workstream suggested that when the legal text is drawn up, consideration should be given to the creation of a list of such documents and creation of a section detailing common governance arrangements. The Proposer acknowledged that this could be consistent with the promotion of efficiency in the administration of the Uniform Network Code.

TGP supported this suggestion stating “this would add clarity to the UNC and would promote efficiency in the administration of the Codes”.

EON “support the creation of a list of the relevant documents, along with the creation of a section detailing common governance arrangements” arguing this “would better facilitate the administration of the network code and improve transparency”. They added that they “would expect such changes to be developed within the Governance Workstream”.

**12. 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

**13. 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

**14. 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.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

It is proposed that implementation should be on the business day following receipt of direction from the Authority.

**16. 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



**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

At the Modification Panel Meeting held on 16 March 2006, of the 10 Voting Members present, capable of casting 10 votes, 6 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

**18. Transporter's Proposal**

This revised Modification Report contains the Transporter's proposal not to modify the Code but has been prepared following direction from the Gas & Electricity Markets Authority.

## 19. Text

### UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

#### SECTION V - GENERAL

##### Amend Section V9.4.2 TPD as follows: -

- 9.4.2 For the purposes of the Code the "**Uniform Network Code Operations Reporting Manual**" is the document so entitled prepared and (subject to paragraph 9.4.5) ~~from time to time revised by National Grid NTS in consultation with the Uniform Network Code Committee or any relevant Sub-committee.~~ governed in accordance with [Section V12 of the UNC TPD].

##### Insertion of a new Section V12 in the TPD

#### 12 General Provisions Relating to UNC Related Documents

##### 12.1 Purpose

The purpose of this Section is to establish generic governance arrangements in respect of the following UNC Related Documents (each a "**Document**" and collectively the "**Documents**"):-

- (a) Network Code Operations Reporting Manual as referenced in Section V9.4;
- (b) Network Code Validation Rules referenced in Section M1.5.3.

##### 12.2 Publication Requirements

Each Document shall be kept up to date and published by the Transporters on the Joint Office of Gas Transporters website.

##### 12.3 Modifications

Should a User or Transporter wish to propose modifications to any of the Documents, such proposed modifications shall be submitted to the Uniform Network Code Committee and considered by the Uniform Network ~~Committee~~ Committee or any relevant sub-committee where the Uniform Network Committee so decide by majority vote. in accordance with the [Uniform Network Code Modification Procedures].

##### 12.4 Approved Modifications

- 12.4.1 If the event that the a proposed modification is approved ~~by~~ by a majority vote of the Uniform Network Code Committee, the modification ~~to the Document~~ shall be implemented ~~within the timescale set out in the proposed modification or as soon as is reasonably practicable and agreed by the Uniform Network Code Committee.~~ Where the Uniform Network Code Committee fails to achieve majority approval the proposed modification shall be considered in accordance with the provisions set out

in Section 7 of the Uniform Network Code Modification Rules unless the Uniform Network Code Committee determines otherwise.

12.4.2 Each revised version of a Document shall be version controlled and retained by the Transporters. It shall be made available on the Joint Office of Gas Transporters website.

~~12.4.3~~

Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**

Signature:

Date :