

Draft Modification Report
Extending established Uniform Network Code governance arrangements to
include the Code Credit Rules referenced in section V3.1.2
Modification Reference Number 0056
Version 2.0

This Draft 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 Workstream debated the possibility of extending the Proposal such that changes to the Code Credit Rules could be sought via the Modification Procedures, but the Proposer declined to amend the Proposal to incorporate this alternative approach.

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 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 the quality of service shipper-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 new users.

This modification proposal builds on the principles established by Modification 730 to the Network Code and proposes extending the UNC governance arrangements to include all of the Code Credit Rules.

With respect to the Code Credit Rules prepared by each Transporter, it is proposed that the UNC be modified:

- To require publication of the Code Credit Rules on a publicly accessible industry website, such as the Joint Office of Gas Transporters' website.
- To require creation of a new version of any of the Code Credit Rules following any revisions, with each version numbered sequentially, and with earlier versions continuing to be made available by the Relevant Transporter on request
- To enable Transporters or Users to propose revisions to any of the Code Credit Rules by written notice to the Uniform Network Code Committee
- To prevent any revisions being made to any of the Code Credit Rules without approval by majority vote of the UNC committee
- Without fettering the discretion of the committee, to permit the UNC Committee if it considers it appropriate (again subject to 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 any of the Code Credit Rules. However the implementation of proposed revisions would only be allowed by first formally satisfying industry stake holders. 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.

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

Implementation of this Proposal would be expected to better facilitate the Relevant Objectives specified within the Gas Transporters Licence by improving transparency and accountability. It is a means of ensuring efficient consultation, which will 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 will contribute to the promotion of efficiency in the implementation and administration of the UNC.

Implementation would 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 would also reduce risk associated with insufficient visibility and governance of the Code Credit Rules, and any such reduction in risk would be expected to further facilitate the securing of effective competition.

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

The implementation of this proposal should not have any effect on security of supply or the operation of the Total System.

Establishing a consistent process to be followed before any change is made to the Credit Rules operated by each Transporter would be expected to help avoid industry 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 the operation of the System.

b) development and capital cost and operating cost implications:

No material development or capital cost implications have been identified.

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 on price regulation 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

Implementation may help reduce the level of contractual risk for each Transporter by improving transparency and governance.

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 risks for Users by increasing visibility and awareness of arrangements and introducing more robust governance arrangements. This could in turn facilitate competition between shippers and between suppliers.

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 to sponsor changes proposed 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 implications 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 any of the Code Credit Rules, introducing more balanced governance arrangements and ensuring they are ore relevant to User Requirements.
- prevents changes being made to the reports without the approval of the UNC Committee, except where the normal Modification Procedures are followed
- improved transparency and confidence in arrangements as the current version of the Code Credit Rules would be published and available on the industry website and subject to formal change control
- more inclusive and efficient consultation will increase the certainty and confidence of UNC parties leading to the securing of effective competition between Shippers and between Suppliers
- contributes to the promotion of efficiency in the implementation and administration of the UNC.

Disadvantages

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

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

No written representations have been received.

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

19. Text

The Proposer has not provided draft text.

When the legal text is drawn up it is suggested that consideration be given to the creation of common governance arrangements for such documents. A list of similar documents and governance arrangements could be set out in a general section of the UNC. This would be consistent with the promotion of efficiency in the administration of the Uniform Network Code. Comments on such an approach are invited as part of this consultation.

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report

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: