

**Modification Report**  
**Extending Uniform Network Code to allow Users to raise Class 3 UK Link modification proposals**  
**Modification Reference Number 0091**  
Version 2.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

**1. The Modification Proposal**

The Proposal was as follows:

“Recently there have been industry discussions on areas such as adding additional Gemini functionality and the provision of a test environment to be available for User testing of specific UK Link modifications. In both circumstances, the discussions have faltered when it came to how any costs associated with the provision of necessary system changes would be met. Assuming however, that Users could come to an agreement as to how any costs should be apportioned and recovered, the current rules still require a Transporter to make a Modification Proposal in respect of the Class 3 UK Link Modification. However, as the Transporters have no obligation to make such a proposal and further have no specific interest in the proposal, this might further hamper the ability of the industry to progress such Class 3 UK Link Modifications because of uncertainty as to how to instigate the UK Link change once any agreement has been reached on the treatment of any incurred costs.

Hence it is proposed that the UNC be changed to allow either a User or a Transporter to make the necessary Modification Proposal which would, if approved by the Authority, allow the Class 3 UK Link Modification Proposal to be implemented.

Should this Proposal fail to be implemented the industry would still be unclear as to how it could progress a Class 3 UK Link Modification because of the Users’ current inability to instigate the required process.”

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

The proposer believes that this Proposal would, if implemented, better facilitate the Relevant Objectives specified within the Gas Transporters Licence as they relate to the securing of effective competition between relevant shippers and/or relevant suppliers. For example, implementation of a Class 3 UK Link Modification Proposal might improve Users’ transactional efficiency on UK Link or, in the case of testing facilities, reduce Users’ contractual risks. Providing a more direct means to progress a UK Link Modification would therefore enhance Users’ abilities to obtain these benefits.

Additionally, clarity for Users in the way Class 3 UK Link Modification Proposals can be initiated, will improve the efficiency of the administration of the UNC and UK Link.

BGT made the general comment “*We fail to see that this modification in itself can do anything other than better facilitate the relevant objectives, as its purpose is simply to*

*create an easier route for a User to introduce a modification proposal into the existing governance framework for consideration.”*

RWE believed “effective competition between Shippers and Suppliers” would be better facilitated since implementation would remove the provision that *“has the potential to stifle innovation within the market.”* SGN, SSE, STUK and NG NTS all referred to furtherance of this objective. For example NG NTS stated it would *“enable any User to raise a Class 3 Modification Proposal without prior interaction with a Transporter”*.

In terms of “the promotion of efficiency in the implementation and administration of the network code and/or uniform network code”, TGP, NG UKD, SGN, SP, STUK, WWU, and NG NTS argued this would be facilitated by removal of the need for Transporters to raise Modification Proposals on behalf of Users. Both NG NTS and WWU explained *“It removes a layer of complexity that does not adversely impact with any contractual or regulatory obligations”*. NG UKD expressed a view that *“currently there is no incentive for Users to agree a cost sharing mechanism when they have to rely on a Transporter to raise the UNC modification proposal for them.”* SP and STUK believed that implementation would improve efficiency, SP suggesting it would *“result in a more streamlined process when it comes to progressing and managing UK Link changes”*.

In keeping with its qualified support, NG NTS went on *“we would request further clarification from the Proposer/UNC Committee with regards to who they would see as being responsible for any initial costs of any IS Impact Assessment (IA) required (and subsequent implementation cost concerns) by Class 3 Modification Proposals.”* Similarly WWU suggested *“that all subsequent Class 3 Modification Proposals explicitly address the issues surrounding payment and implementation responsibility”*.

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

Implementation of this Proposal should not have any effect on security of supply or the operation of the Total System. There are no known implications for industry fragmentation.

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

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

No such implication has been identified from this Proposal.

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

The proposer did not believe that implementation of this Proposal would necessitate any non-trivial development or capital costs to be incurred and NG NTS commented “*to implement this Proposal would have little or no impact on existing systems and business processes.*”

**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

If implemented, this Proposal would not require the recovery of any additional costs in itself.

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

No such implications 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 did not believe that this proposal would affect the level of contractual risk for each Transporter as any Class 3 UK Link Modification would itself need to address how any associated costs are to be recovered from UK Link Users. NG NTS made a similar statement in its representation (although it does refer to Transporter risk in disadvantages of the Proposal).

The Transporters were concerned that their risk may be increased with additional costs being incurred. For example, SGN argued “*the Class 3 UK Link Modification would need to address how any associated costs are to be recovered from UK Link Users. This requirement must be clearly set out in the UNC.*”

NG UKD pointed out “*It is possible that as part of this Proposal a proposal could be raised and direction to implement could be given with no agreement in place which addresses cost allocation.*” NG UKD believed that “*as a prerequisite to any Class 3 UK Link modification proposal the proposing party should liaise with the Transporters concerning the nature of the changes, the costs sharing mechanism and implementation timetable. The Panel would have to consider whether all of these issues have been resolved when making its decision about whether a proposal is sufficiently developed to proceed to consultation.*”

**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**

The proposer does not believe that there will be any direct impact on the UK Link Systems as a result of this Proposal being implemented.

NG NTS commented “*future Class 3 Modification Proposals may impact the UK Link System, therefore implying that National Grid NTS would be potentially liable to fund*

*internal system changes to incorporate the Users changes requested in their Class 3 Modification Proposal.”*

WWU highlight that it is not clear who should be responsible for any initial IS Impact Assessments required. The SME can confirm that the Proposal to not seek to address this issue.

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

The proposer believes that this proposal will improve the potential for Class 3 UK Link Modifications to be made where Users have identified these. Such Modifications would, if implemented be expected to reduce Users’ administrative and operational costs and in some cases reduce the level of contractual risk.

BGT welcomed *“the greater empowerment that this modification provides to Users in respect of proposing changes to UK Link.”* BGT went on to observe the modification would *“create an easier route for a User to introduce a modification proposal into the existing governance framework for consideration....and will rectify the inconsistency that currently exists..”*.

SP notes that *“in instances where Users see benefits in initiating particular changes and as a consequence are prepared to pick up the associated development costs, Users will no longer have to rely on Transporters to propose the changes on their behalf”*.

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

Respondents did not identify any material effects in this area.

**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**

Respondents did not identify any consequences in this area.

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

**Advantages**

- will allow Users to progress changes to UK Link under circumstances where the Transporters have no intention to make such changes unless the costs of making the changes are to be recovered from UK Link Users
- will remove the anomaly whereby currently the Transporters have to make the UNC Modification Proposal in order to introduce changes in which otherwise they have no interest or obligation to make
- will contribute to the promotion of efficiency in the implementation and administration of the UNC and UK Link
- may facilitate competition between Users

Additionally NG NTS suggested:

- *“Should effectively ensure openness between Users and Transporters....”*
- *“Removes any interpretation that a Transporter may unwittingly place upon a User’s Proposal.”*

## **Disadvantages**

NG NTS suggested the following:

- *“The Proposal does not identify the specific User type that can raise Class 3 Modifications; it may be useful for the Proposer to identify the Users as ‘UK Link Users’ which would mitigate any confusion caused.*
- *The Proposal does not address payment/funding mechanisms for any Class 3 Modification Proposal and as payment has not been addressed this is a risk to Transporters.*
- *Process for IS Impact Assessment (IA) obligations and funding of that IA requirement are not clearly identified by this Proposal.”*

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

There were 2 representations offering qualified support and 8 offering support (2 with caveats). Whilst SGN confirmed support it also identified a contractual risk for the Transporters that, in its view, needed to be addressed in UNC legal drafting. Similarly WWU expressed support *“on the assumption that all subsequent Class 3 Modification Proposals explicitly address the issues surrounding payment and implementation responsibility.”*

<b><u>Organisation</u></b>	<b><u>Abbreviation</u></b>	<b><u>Position</u></b>
British Gas Trading	BGT	In Support
National Grid Distribution	NG UKD	Qualified Support
National Grid NTS	NG NTS	Qualified Support
RWE Npower	RWE	In Support
Scotia Gas Networks	SGN	In Support
Scottish Power	SP	In Support
Scottish & Southern Energy	SSE	In Support
Statoil (U.K.) Limited	STUK	In Support
Total Gas & Power	TGP	In Support
Wales and West Utilities	WWU	In Support

### **Proposing changes to UK Link**

STUK observed that if there is agreement between Users as to how costs will be recovered for a UK Link class 3 change, implementation of this modification *“will allow a level playing field to all UK Link users allowing transporters and Users to propose class 3 changes.”*

Similarly SP observed that *“the suggested amendment to the UNC will allow both Users and Transporters to raise Class 3 UK Link Modifications .*

RWE believed that *“all Users should be allowed to raise modification proposals to amend the UNC and UK Link respectively. We do not understand the rationale behind not allowing Users to raise UK Link Class 3 modifications as it has the potential to stifle innovation within the market. We believe that this modification proposal [0091], addresses this matter..”*

SGN believed *“the proposal would provide greater clarity and more equitable governance arrangements regarding arrangements for progressing Class 3 UK Link Modifications by allow Users as well as Transporters to raise changes.”*

WWU notes *“the Proposal does not identify the route that would be used to address payment and implementation responsibility for any subsequent Class 3 Modification Proposals”*. WWU goes on to say that it appreciates that this is an enabling Proposal.

#### Legal Text Comment

The Proposer (TGP) in its representation stated the legal text provided by the Transporters properly reflects the intent of the Proposal.

UKD noted that *“the Proposal as raised would allow Users to raise UNC modification proposals for all types of Class 3 changes. Although the Proposal focuses on User funded changes it does not specifically exclude Users from making other Class 3 changes (i.e. UNC 8.2.4 (b)). UKD believes that the Proposal was directed specifically at User funded changes and recommends that the legal text should be amended to provide this clarity. “*

Similarly SGN observes *“Whilst UNC Section U 8.2.4 (a) clarifies that under a Class 3 Modification the costs are to be recovered from UK Link Users, for clarity it might be appropriate that legal text also specifies that the actual proposal itself should set out how costs are to be recovered from Users.”*

#### **12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

None of the respondents envisaged that implementation was 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)**

Implementation can be immediate on receipt of direction from Ofgem.

**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 19 October 2006 , of the 9 Voting Members present, capable of casting 9 votes, 9 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

**18. Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

## 19. Text

### UNIFORM NETWORK CODE – TPD SECTION U – UK LINK

Paragraph 8.5.2 revise to read as follows:

"8.5.2 Before ~~making~~ a Class 3 Modification may be made by the Transporters, a ~~m~~Modification p~~Proposal~~ in respect thereof must be made in accordance with the Modification Rules and the Transporters or any User shall be entitled to make such a Modification Proposal."

Paragraph 8.5.3 revise to read as follows:

"8.5.3 The Transporters may ...the subject of the ~~m~~Modification p~~Proposal~~ referred to in paragraph 8.5.2."

Delete Paragraph 8.5.5.



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 :