

**Modification Report**  
**"Introduction of a DN Pensions Deficit Charge on DNO Users"**  
**Modification Reference Number 0127**  
Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4

**1. The Modification Proposal**

The Proposal was as follows:

"Ofgem has proposed in its Transmission Price Control Review (TPCR) final proposals (Apr 2007 – Mar 2012) that an allowance for the National Grid UK Pension Scheme deficit is included in the maximum NTS transportation owner revenue (TOMR). Ofgem has proposed that the most practical solution would be for National Grid NTS to recover the allowance for the deficit costs from DNO Users by the introduction of a new DN Pensions Deficit Charge. This would be levied on DNO Users with effect from the start of the next Transmission Price Control, if Ofgem's final proposals are accepted by National Grid NTS.

National Grid NTS has recently raised a Pricing Consultation Paper (NTS GCM02) that proposes the introduction of a new transportation charge, known as a DN Pensions Deficit Charge, which would be levied on DNO Users on a monthly basis from 1 April 2007. It is therefore proposed within this UNC Modification Proposal that:

- the proposed new charge type ("DN Pensions Deficit Charge") is defined as a Transportation Charge within the UNC;
- the amount of the DN Pensions Deficit Charge is as defined with National Grid NTS's Transportation Statement;
- the DN Pensions Deficit Charge will be invoiced in accordance with Section S; and
- credit provisions (contained in TPD Sections V) are applied, where relevant, for DNO Users in respect of the DN Pensions Deficit Charge.

In raising this Modification Proposal at this stage, National Grid NTS does not imply acceptance of Ofgem's final proposals for the TPCR. However, this Proposal would allow implementation of the proposed charge in a timely manner after the TPCR has been concluded.

Implementation of the Proposal would thus enable implementation of charges that have been proposed within NTS GCM02 subject to the Authority decision. It is intended that these proposed charges would become effective from 1 April 2007, although the precise timing would be subject to agreement of Ofgem's final TPCR proposals.

The suggested legal text is as follows:-

**UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT**  
**SECTION B – SYSTEM USE AND CAPACITY**

*Amend paragraph 1.7.1 to read as follows:*

"1.7.1 For the purposes of the Code:

- (a) "**Transportation Charges**" are charges (other than Energy Balancing Charges or Storage Charges) payable by a User in respect of a transportation arrangement under the Code, and (subject to paragraph 1.7.8) comprise Capacity Charges, Commodity Charges, Customer Charges, and CSEP Charges and payable by a DNO User in respect of DN Pensions Deficit Charges;
- (b) "**Metering Charges**" .... "

*Amend paragraph 1.12 to read as follows:*

"1.12 In this Section B references to Users, except in paragraphs 1.2.1, 1.2.5, 3.9, 6 and 7, exclude DNO Users."

*Insert a new paragraph 7 as follows:*

**7. DN PENSIONS DEFICIT CHARGE**

7.1 DNO Users shall pay National Grid NTS a transportation charge (the "DN Pensions Deficit Charge") in respect of pension deficits. The amount of such DN Pensions Deficit Charge shall be determined in accordance with the Transportation Statement of National Grid NTS. Such DN Pensions Deficit Charges shall be invoiced and payable in accordance with Section S."

**UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT  
SECTION V - GENERAL**

*Amend paragraph 3.1.5 to read as follows:*

"3.1.5 In this paragraph 3 references to:

- (a) Users ~~excludes~~ includes DNO Users;
- (b) National Grid NTS and National Grid plc as DN Operator shall be construed as a single reference to a Transporter."

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

The Proposer suggested and respondents agreed that implementation would facilitate implementation of National Grid NTS's proposed DN Pensions Deficit Charge, subject to acceptance by GEMA, and hence avoid inconsistency with the Gas Transmission Transportation Charging Methodology Statement. Implementation of this Proposal would thus further the efficient discharge of National Grid NTS's obligations under its Gas Transporter Licence and thus better facilitate the achievement of Standard Special Condition A11.1 (c).

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

No such implications are envisaged.

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

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

Implementation is not expected to affect the operation of the System.

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

Any costs associated with changes to the billing systems are expected to be minimal.

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

Any costs associated with system development and operating processes would be covered under the SO internal cost incentive.

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

Implementation would facilitate alignment between the UNC and the Gas Transmission Transportation Charging Methodology statement.

**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 is expected to reduce the level of contractual risk of National Grid NTS by allowing it to charge DNO Users in accordance with its Gas Transmission Transportation Charging Methodology Statement.

**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**

As the DN Pensions Deficit Charge would be invoiced by offline systems, any systems changes would not affect the core UK Link System.

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

No such implications are envisaged.

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

No such implications have been identified.

**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**

**Advantage**

- facilitates implementation of the proposed DN Pensions Deficit Charge
- facilitates alignment between the UNC and the Gas Transmission Transportation Charging Methodology Statement

**Disadvantages**

- None identified

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

Representations were received from the following parties:

<b>Organisation</b>	<b>Abbreviation</b>	<b>Position</b>
British Gas Trading	BGT	In Support
National Grid Distribution	NG UKD	In Support
National Grid NTS	NG NTS	In Support
Northern Gas Networks	NGN	In Support
RWE npower	RWE	In Support
Scotia Gas Networks	SGN	In Support
Wales & West Utilities	WWU	In Support

Thus all seven respondents supported implementation.

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

No such requirements have been identified.

**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**

This Modification Proposal has been raised in parallel with a Pricing Consultation (NTS GCM 02) proposing implementation of a DN Pensions Deficit Charge.

**14. Programme for works required as a consequence of implementing the Modification Proposal**

The programme for works has not been defined. However, an "off-line" solution is envisaged.

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

Subject to prior decision by the Authority, an implementation date of 1 April 2007 is proposed.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No such implications 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 15 February 2007, of the 10 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

## 18. Text

### UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT SECTION B – SYSTEM USE AND CAPACITY

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- (b) **"Metering Charges"** .... "

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*Insert a new paragraph 7 as follows:*

#### **7. DN Pensions Deficit Charge**

7.1 DNO Users shall pay National Grid NTS a transportation charge (the 'DN Pensions Deficit Charge') in respect of pension deficits. The amount of such DN Pensions Deficit Charge shall be determined in accordance with the Transportation Statement of National Grid NTS. Such DN Pensions Deficit Charges shall be invoiced and payable in accordance with Section S."

### UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT SECTION V - GENERAL

*Amend paragraph 3.1.5 to read as follows:*

"3.1.5 In this paragraph 3 references to:

- (a) Users ~~excludes~~ includes DNO Users;
- (b) National Grid NTS and National Grid Gas plc as DN Operator shall be construed as a single reference to a Transporter."

*Amend paragraph 4.1.6 to read as follows:*

"4.1.6 In this paragraph 4 references to:

- (a) Users ~~excludes~~ includes DNO Users;
- (b) National Grid NTS and National Grid as DN Operator shall be construed as a reference to a single Transporter."

For and on behalf of Relevant Gas Transporters

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