

Modification Report
Removal of Certain "Gas not made available for offtake" Provisions from the UNC
Modification Reference Number 0193
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

Pursuant to Ofgem Consultation 279/07, it is anticipated that a revised version of the 'Gas (Standards of Performance) Regulations' (the Regulations) will be introduced and become effective from 1 April 2008.

Regulation 7 of the Regulations mandates the payment by the relevant Transporter of compensation to the customer where supply is interrupted (as a consequence of failure of, fault with or damage to the pipeline system) and is not restored within a prescribed period. The revised Regulations further clarify circumstances where such provisions do not apply, one of which (sub paragraph 3(g)) is where '...the customer's premises are premises to which the conveyance of gas is at a rate in excess of 73,200kWh a year'.

This provision of the Regulations effectively encompasses and expands upon the existing scope of such payments which are made pursuant to Section J3.5.2 of the Transportation Principal Document of the Uniform Network Code (UNC). Such payments are currently made in respect of Smaller Supply Points where gas is not taken wholly or mainly for domestic purposes whereas operation of the Regulations will effectively mandate the payments to all Smaller Supply Points, regardless of the purposes for which the gas is offtaken.

Additionally sub-paragraph 3(e) of Regulation 7 clarifies the circumstances in which compensation is payable in respect of Smaller Supply Points on CSEP networks. Such payments are currently issued pursuant to section J3.11.6(a) of the Transportation Principal Document of the UNC.

It is therefore proposed that the functions of J3.5.2 and J3.11.6(a) are removed from the UNC, with effect from the proposed implementation date, as the provisions will be superseded by the Regulations. In conjunction with the above, it is also proposed that the Group Limit for Compensation Group J (in respect of Smaller Supply Points) as detailed in section V10(e)(vi) is removed.

Retention of the UNC provisions will effectively subject the single transaction to dual governance and maintain a consequential a risk of duplicate liabilities.

As the Statutory Instrument will be the primary authority for such payments, it is appropriate to remove the equivalent terms within the UNC, especially as, in practice all consumers currently paid pursuant to the UNC will continued to be paid in such circumstances pursuant to the Regulations.

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

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of

- (i) the combined pipe-line system, and/ or*
- (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers;*
- (ii) between relevant suppliers; and/or*
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would ensure that the UNC does not duplicate obligations that will be documented in Secondary Legislation and therefore facilitates efficiency in the implementation and administration of the UNC.

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

No such implications have been identified.

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

a) Implications for operation of the System:

No such implications have been identified.

b) Development and capital cost and operating cost implications:

No such 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 such cost recovery 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

Transporters contractual risk pursuant to the UNC will reduce. Alternatively, performance will be required by Secondary Legislation.

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 such implications have been identified. Whilst removal of the UNC obligation in isolation would negate the requirement for the systems and processes required to make the payments, implementation of the amended Regulations will require the maintenance of such systems and processes.

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

Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

Development and capital cost and operating cost implications

No such implications have been identified.

Consequence for the level of contractual risk of Users

No such consequences have been identified.

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

No direct 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 direct consequences have been identified.

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

Advantages

- Removes risk of dual governance and liability that will exist with effect from 1 April 2008 if the proposal is not implemented.
- Removes potential for conflicting rules regarding compensation payable.

Disadvantages

- No disadvantages have been 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:

Organisation	Position
British Gas Trading	Supports
EDF Energy	Conditional Support
E.ON UK	Conditional Support
National Grid Distribution	Supports
RWE Npower	Supports
Scotia Gas Networks	Supports
Scottish and Southern Energy	Supports
Wales & West Utilities	Supports

Of the 8 responses received 6 offered support and 2 offered conditional support of implementation.

BGT and E.ON noted that implementation of the Proposal needs to be conditional on the timely introduction of the revised Gas (Standards of

Performance) Regulation in April 2008, otherwise the appropriateness of this proposal would need to be reconsidered.

EDF similarly noted that the statutory instrument to effect the changes to the Regulations has not been issued for consultation, and the Secretary of State has to give effect to these changes. If these changes were not made then EDF would not be able to support this Proposal, as it would not facilitate any relevant objectives. In the event of the changes to regulations being enacted EDF would support implementation of this Proposal.

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 has been identified as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

The Proposer aspires for implementation to coincide with the implementation of the amended Regulations.

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 21 February 2008, 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 Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 **Text**

TPD Section J

Amend paragraph 3.5.2 to read as follows:

3.5.2 Not used.

Amend paragraph 3.5.4(b) to read as follows:

- (b) for the purposes of paragraph 3.5.3(b), any such period of 24 hours as is referred to in Section L4.3.2(e) is concurrent with and not in addition to the first 24 hours referred to in paragraph 3.5.3(b), and accordingly (notwithstanding Section L4.3.1) any period of Programmed Maintenance (in respect of the Supply Point) shall count towards such first 24 hours.

Amend paragraph 3.5.9 to read as follows:

- 3.5.9 For the purposes of Section V10, the rules in paragraphs 3.5.3 and 3.5.5 (but not paragraph 3.5.7, but without prejudice to paragraph 3.5.8(a)) are Compensation Rules within Compensation Group J; and in relation thereto the 'payment month' is the second month following the month in which the relevant failure commenced.

Amend paragraph 3.11.6 to read as follows:

- 3.11.6 Where this paragraph applies, the amount referred to in paragraph 3.11.3 (b)(i) is the aggregate, for all of the Connected System Premises to which the CSEP User has (at the relevant time) arranged for gas to be conveyed by the Connected System Operator and where the rate at which gas is expected to be supplied to the consumer at those Connected System Premises exceeds 73,200 kWh (2,500 therms) per annum, of the amount (in respect of each such premises) equal to the lesser of the amount which the Connected System Operator or relevant supplier is (as described in paragraph 3.11.5(b)) committed to pay to the consumer, and the amount which (if the Connected System Premises were connected to the System at a Supply Point) the Transporter would be required to pay pursuant to paragraph 3.5.3.

TPD Section V

Amend paragraph 10.1.1 (e) (vi) to read as follows:

- (vi) for Group J: £2,500,000 in respect of Larger Supply Points; and

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters