

**Modification Report**  
**Alterations to shipper penalties for end user failure to interrupt**  
**Modification Reference Number 0196**  
**Version 2.0**

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 Uniform Network Code, Transportation Principle Document Section G, 6.9.6 to 6.9.9 states that if on a Users Portfolio the number of failures to interrupt exceeds 5 in any one gas year, then all the Interruptible Supply Points of which the User is the Registered User will be redesignated as Firm, save where the Firm Transportation Requirement would not be satisfied and in such cases only the revised Firm Transportation Charges would be applied. The code also states that the above will not apply where the User demonstrates to the transporters' reasonable satisfaction that the User had taken all reasonable steps to comply with the requirement to Interrupt and that the failure to Interrupt occurred despite the taking of such steps.

Whilst failure to Interrupt is extremely serious, the proposer believes that this sanction should be removed from the UNC for two principle reasons:

1. We believe that the consequences to the User of enforcing this section of the UNC are disproportionate. If there is a HSE issue with a particular site failing to interrupt, the GDNs have the right to physically isolate the Supply Point, which we fully support.
2. Under 6.9.9, we do not believe that there is enough clarity in the term "reasonable steps to comply with the requirement to Interrupt". Whilst the proposer believes that the operational procedures in place are to a level that would demonstrate "reasonable steps to comply with the requirement to Interrupt", Users cannot be confident that the Transporter will necessarily concur with their objection.

For the avoidance of doubt, the proposer believes that the sanction and penalty for the individual Supply Points that do fail to Interrupt should remain in place. The proposer also believes that it is correct that those sites failing to interrupt should become firm.

The proposer is proposing to remove Sections 6.9.6, 6.9.7 and 6.9.8, from the Transportation Principle Document Section G of the Network Code and any references to them. He is also proposing that the same sections should be removed from the UNC Transition Document Part IIC, which, as a result of the implementation of MOD 90, is where they will remain in force until October 2011.

**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;*

National Grid Distribution and Scotia Gas Networks believe a more relaxed regime would hinder the efficient and economic operation of the system.

***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;***

The Proposer believes this Proposal would better facilitate the achievement of SSsPCA11(d) of the Transporter's Licence by removing the "5 strikes rule" as Users would not be disproportionately penalised for a failure by a customer to interrupt. Converting a User's entire portfolio to firm undermines a User's competitive position and therefore runs contrary to the Transporter's obligation to facilitate the securing of effective competition.

National Grid NTS, Scotia Gas Networks and Wales & West Utilities disagreed, they considered the existing UNC provisions are proportionate and have been successful in protecting the system.

***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;***

British Gas and National Grid NTS believe there could be a potential detriment to the security of supply from weakening the incentives.

***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 not be expected to facilitate the achievement of this objective.

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

This Proposal does not affect the security of supply, the operation of the Total System nor industry fragmentation. Transporters are able to isolate customers which imperil system security through continued consumption of gas following the provision of an Interruption Notice.

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

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

No implications for operation of the system have been identified.

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

Although the Proposer believed that there are no direct capital, development or operating costs on Transporters resulting from this proposal.

National NTS believe there would be a potential increase in Transporter costs.

**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 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**

No such consequences have been identified.

**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**

Minimal system implications are expected.

**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)***

Minimal 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***

The level of contractual risk for Users, albeit remote, would be reduced, but proportional.

**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 an unduly onerous risk from the Shipping/Supplier Community and ensure that competition is secured.
- Properly applies a penalty to the User for failing to secure interruption in the event that this is the case.
- Removes the uncertainty surrounding the need to justify that reasonable steps had been taken in the event that a customer had failed to interrupt.

**Disadvantages**

National Grid NTS provided the following disadvantages:

- It weakens the incentive on Users to apply pressure, where necessary, to ensure customers understand the safety critical nature of their supply contract and have the necessary processes in place to effect timely interruption
- It potentially increases the requirement on Transporters to physically isolate sites, thereby slowing down the isolation process and imposing a risk to safe operation of the system
- Where additional physical isolation is required, Transporters would

incur additional operational costs and potentially face increased resource requirements

Scotia Gas Networks provided the following disadvantages:

- Robustness of interruption arrangements and ability to manage the system and respond to a situation in a speedy and efficient manner.
- Physical isolation takes time to instigate and therefore builds additional risk in to arrangements.

**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>Position</b>
British Gas	Not in Support
E.ON UK	Support
Gazprom	Support
National Grid Distribution	Not in Support
National Grid NTS	Not in Support
RWE	Support
Scotia Gas Networks	Not in Support
Statoil UK	Support
Wales & West Utilities	Not in Support

Of the nine representations received four supported implementation whereas five did not support implementation.

Scotia Gas Networks strongly believe that the current arrangements strike a reasonable balance between protecting the integrity of the system and other customers and providing an incentive for Shippers and end customers who fail to interrupt.

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

Although the Proposer considered implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation, Scotia Gas Networks believed the Modification may have significant contractual consequence for the Transporter as it is not clear how the arrangements around physical isolation would work.

**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)**

Proposal could be implemented with immediate effect following 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 15 May 2008, of the 8 Voting Members present, capable of casting 10 votes, 2 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel did not recommend implementation of this Proposal.

**18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal not to modify the Code and the Transporter now seeks agreement from the Gas and Electricity Markets Authority in accordance with this report.

**19 Text**

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**

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