

Stage 01: Proposal

0338:

Remove the UNC requirement for a 'gas trader' User to hold a Gas Shipper Licence

Provision within the Uniform Network Code to allow for users who do not convey gas to become signatory to the UNC without holding a Gas Shipper Licence.



The Proposer recommends

Delivery of Development report to Panel for 0338 in or before September ~~June~~ 2011



High Impact:
N/A



Medium Impact:
N/A



Low Impact:
Shipper Users, National Grid Transmission and the Authority

What stage is this document in the process?

01

Proposal

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

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Modification

19 August 2011

Version 4.0

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3 **Any questions?**

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About this document:

This document is a Development Modification, which will be presented by the Proposer to the [Panel Transmission Workgroup](#) on ~~16 June~~ [1st September](#) 2011 [to inform the final Workgroup Report](#). The Panel will consider the [Proposer's recommendation report at the September Panel meeting](#), and agree whether this Proposal should proceed to consultation or be referred to a Workgroup for [further](#) development.

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1 Summary

Why Change?

Currently a party that wishes to accede to the UNC must first demonstrate that it holds a current and valid Gas Act Shipper Licence. In early September 2010 Ofgem implemented revisions to their regulations for applications for Gas and Electricity Shipping Licences as per consultation 74/10. National Grid Transmission's response to 74/10 noted that the revocation of 'dormant' licences as described in Section 3 of 74/10 would give rise to a situation whereby entities would need to be able to accede to the UNC without having a relevant Gas Shipper licence, but only for those activities which do not involve the conveyance of gas, i.e. the trading of commodity at the National Balancing Point (NBP).

Solution

This modification proposes to introduce a new type of User so as to distinguish between:

- Users involved in the conveyance of gas, or arranging for the conveyance of gas, under the terms of the UNC, and;
- Users not involved in the conveyance of gas, or arranging for the conveyance of gas under the terms of the UNC, but whose activities involve the activities directly related to, or resulting from, registration of Trade Nominations.

This modification recognises that both types of User should be able to accede to the UNC. This modification further proposes that it is the User's responsibility to ensure that it has the appropriate licence in place prior to undertaking the relevant activities described in the UNC.

Impacts & Costs

Existing systems and process are confirmed as capable of supporting the changes arising from implementation of this Modification and so no costs are anticipated for implementation.

[The Agency has indicated that there will be a cost to Users readmitting to the UNC to change User Status from Shipper to Trader or vice versa. The UNC admission process is a User Pays service.](#)

Implementation

As ~~the revised licence regulations are already in place~~ [there are no systems changes required to support this proposal](#) the modification [should be implemented](#) as soon as is reasonably practical [following receipt of authority to implement from Ofgem](#).

The Case for Change

This modification supports Relevant Objective D: Securing of Effective Competition

Recommendations

The proposer recognises that the Panel has requested this Modification be discussed at the Transmission Workstream for not more than 6 months.



What is the National Balancing Point?

This is the notional point on the total system that all gas is deemed to have flowed through on its way between all inputs and all outputs.

2 Why Change?

Revised Licence Regulations

Ofgem consultation 74/10 "Gas and electricity licences – Proposed changes to the Applications Regulations and Revocations Schedules of future licences" was published on 17th June 2010. This consultation proposed several changes to the Gas Act licensing process, part of which concerned the reduction in numbers of dormant licences.

One definition of dormant licences concerns entities who hold a Gas Shipper licence for the purpose of admission to the UNC, but who do not undertake any activity falling within the remit of the licence, i.e. either the physical conveyance of gas or arranging for the conveyance of gas.

Therefore, in order to reduce the numbers of dormant licences, the consultation sought views on removing the need for entities to hold a Gas Shipper licence if they do not intend to convey gas, but still allow them to become a signatory to the UNC in order to engage in other activities, e.g. commodity trading at the National Balancing Point.

Following that consultation Ofgem implemented their revised Licence regulations on 3rd September 2010:

<http://www.ofgem.gov.uk/Licensing/Work/Documents1/AppRegsDecisionFinal.pdf>

Currently the UNC requires all signatories that wish to register NBP trades, other than as a Market Operator, Residual Balancer, Operating Margins Manager or NTS Shrinkage Manager, must hold a Gas Shipper licence. This modification proposes to amend the UNC such that entities can become party to the UNC in line with Ofgem's revised Licence Application Regulations.

3 Solution



What is the TPD?

TPD is the Transportation Principal Document.

Gas Traders Modification

This modification proposes to create a new class of user within the UNC. This new User role, termed a "Trader User" will allow parties to accede to the UNC for the purposes of engaging in non-physical market transactions only. This modification proposes that the admission process for Trader Users shall be similar to that for Shipper Users, but will differ in that it will not require the party to hold a Shipper licence.

For the avoidance of doubt this modification does not propose to allow parties to sign up to the UNC to engage in activities including the physical conveyance of gas without holding the relevant licence. Shipper and Transporter parties to the UNC will continue to hold responsibility for ensuring that they hold the appropriate licence to undertake their activities.

The current UNC defines "Shipper User", listed in the defined terms as defined at TPD B2.2.1(a), and "Users", listed in the defined terms as defined at B2.2.1(i). This modification proposes to add a new defined term, "Trader User", also defined in Section B2.2.1. The exact definition, and to which Sections of the UNC it applies, is very important to determine the correct applicability. This modification proposes that the definition of "User" within Section B of the General terms shall incorporate Trader User, and therefore existing references to "User" throughout the UNC shall refer to TUs by default. This modification further proposes that the UNC Sections will be clearly identified as applying to a TU or not by exception within those Sections. For example, Section B of the TPD describes 'Users' as entities that can book Capacity, and a TU party would not gain access to that Section, and a new paragraph within Section B would indicate this.

The new definition in Section B of the General Terms will give a high-level definition of the UNC activities acceded to by being classified as a TU. However, the definitive detail of UNC paragraphs applicable to the TU role will be defined in each Section in a similar fashion to the paragraphs that currently define the applicability of DNO Users (see TPD B1.12 as an example of this).

The changes proposed to the UNC are detailed below and are listed by reference to each Section of the UNC.

UNC Introduction

The UNC Introduction and defined terms lists are generalised and would be applicable to TUs admitted to the UNC.

Transportation Principle Document Changes

Detail of the access to UNC Sections gained by admission to the TU role is given below:

TPD A: This Section defines systems classification, and as such applies to TUs in that it supports other Sections that TUs must have access to. As such it is proposed that this Section remains applicable to all parties to the UNC including TUs.

TPD B: It is proposed that TUs would not have access to this Section as Capacity booking lies outside of the activities that TUs would be admitted to, i.e. capacity booking is considered to be an activity that relates to "arranging for the conveyance of gas" and therefore requires the party to hold a Shipper licence.

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TPD C: It is proposed that TUs would be relevant Users in regard to Section 5, Trade Nominations, while being exempted from access to the rest of Section C. A paragraph to define TU access shall be added at Section C 1 defining non-applicability of TUs to Section C 1, 2, 3 and 4.

TPD D: It is proposed that TUs shall be given admission to D2, Trading Arrangements. This modification proposes that TUs shall be able to post Non-physical Market Transactions as the Originating Participant and accept Non-physical Market Transactions as the Accepting Participant. This modification also proposes that TUs shall be able to accept Physical Market Transactions as the Accepting Participant only. It is proposed that a new paragraph be added to Annex D-1 to restrict "Trader Users" as an Originating Participant for the purposes of Non-Physical Transactions only.

~~This Modification also proposes that a new paragraph be added to ensure that TUs shall not act in a manner that jeopardises, or at the time could be envisaged at some future point to potentially jeopardise, the safe and efficient operation of the pipeline system. This shall follow a similar form to the existing text of the Shipper Licence Standard Conditions 3, paragraph 2, and will be repeated in TPD V: General alongside the Admission requirements for clarity for new applicants.~~

TPD E: Daily Quantities, Imbalances and Reconciliation consider that Daily Imbalance is calculated between the UDQI and UDQO quantities, and then adjusted to take into account Trade Nominations (E 1.2.2). TUs, who can only make non-physical trades, would default to a value of 0 for each quantity, and as such, Section E1.1 is not relevant to TUs. However, they do incur imbalance under this Section of the UNC if they have not balanced their sell and buy Trade Nominations. Therefore, it is proposed that Section E 1.2 shall be applicable to TUs.

Similarly, there are several other Sections of E 1 that relate only to the conveyance of gas and therefore shall not apply to TUs. These are Sections 1.3 "Reconciliation", 1.4 "System Daily Quantities: Entry", 1.5 "System Daily Quantities: Exit from NTS/LDZ", ~~1.6 "Information"~~, 1.7 "Scottish Networks" [and](#) 1.8 "Close-out Rules" ~~and 1.9 "Combined Entry and Exit Quantities"~~.

Section E 1.10 "Energy Balancing on the NTS" shall apply to TUs were they to incur an imbalance as a result of Trade Nominations. This Modification proposes to add an extra paragraph to Section E1 to show TU applicability.

For the avoidance of doubt, this Modification will only change the above Sections to allow for the capture of imbalance on TUs as a result of their activities in relation to the UNC.

Sections E 2, 3 and 4 concern Input and Output quantities, and it is proposed that these Sections shall not apply to TUs as to do so would envisage such parties undertaking conveyance of gas.

Section E 5 captures the calculation of Imbalance including Trade Nominations and therefore it is proposed that it shall apply to TUs.

Sections E 6, 7 and 8 all concern reconciliations of Supply Points and therefore it is proposed that they shall not apply to TUs.

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Section 9 concerns Class A Contingencies, including for the provision of information as described under E1.6, and so therefore it is proposed that it shall apply to TUs.

Section E 10 concerns Unallocated Gas, and therefore it is proposed that it shall not apply to TUs.

TPD F: System Clearing, Balancing Charges and Neutrality describe the charges arising from any User incurring an imbalance, and as such it is proposed that it shall apply to TUs. It is proposed that TUs shall also be applicable to Sections F 1.1 and 1.2, which define Balancing Charges and System Prices, but not Sections 1.3, 1.4 or 1.5.

Section F 2 concerns Daily Imbalances, and therefore it is proposed that it shall be applicable to TUs.

Section F 3 concerns Scheduling Charges, and therefore it is proposed that it shall not be applicable to TUs as TUs cannot make Input Nominations, nor physically deliver gas to / offtake gas from to the System.

Section F 4 concerns Balancing Neutrality Charges, and therefore it is proposed that it shall not be applicable to TUs. Section 5 and 6 concern Reconciliation, and shall not be applicable to TUs.

TPD G, H, I, J: These Sections all concern either conveyance of gas (e.g. Section G, Supply Points), or Transporter only activities (Section H, Demand Estimation and Forecasting). It is proposed that these Sections shall therefore be defined as not being applicable to TUs.


TPD K: This Section concerns mostly Transporter activities, and any interactions therein with Users require the conveyance of gas. Therefore, it is proposed that TUs shall not gain access to this Section upon admission to the UNC. For the avoidance of doubt, it is proposed that TUs shall not be entitled to trade gas whilst it is within a storage facility, at Entry / Exit points, etc. and therefore shall not be party to storage type Trades for purposes of Operating Margins.


TPD L, M, N and O: These Sections concern Transporter activities and Metering, and therefore it is proposed that TUs shall not gain access to them upon admission the UNC.

TPD Q, Emergencies: This Modification proposes that Trader Users shall not be exempted from the emergency rules as any imbalance position they have built up in relation to a gas day will potentially contribute to the emergency. As with Section D this modification proposes to add paragraphs to ensure that TUs shall not act in a manner that jeopardises the safe and efficient operation of the system.

Section 1, General, concerns the identification of an emergency and the requirement for Users to cooperate with the NEC. This Modification proposes that TUs shall apply under the definition of Users in this Section (notwithstanding paragraphs 1.6, 1.7, and 1.8 to which it is proposed that TUs shall not apply). It is also proposed that Paragraph 1.10.1(c) shall apply to TUs, whereas 1.10.1(a) and (b) shall not.

However, since TUs would not hold a Shipper Licence, they would have no licence conditions providing an obligation to cooperate with those parties managing the emergency. To ensure that TUs act in a manner conducive to avoiding or, in the event, the successful management of a Gas Supply Emergency, this modification proposes to add new paragraphs in Section Q 1.10.2. The new paragraph shall replicate Shipper User's licence obligations to cooperate (with those managing an


What is the NEC?
NEC stands for Network Emergency Coordinator, defined at TPD Section Q 1.1.1(c)


What is the IX?
IX stands for Information Exchange, and is the electronic system that all Shipper Users are required to install to access the UK-link suite of systems.

emergency) for TUs, worded much as per the Shipper Licence Standard Condition 5 (2), but altered to reflect "Trader User" in place of "licensee".

Section 2, Emergency Preparedness; it is proposed that this Section shall be applicable to TUs, excepting that certain paragraphs relate only to Supply Points, and so Sections 2.1.2 (but not Section 2.1.1), 2.3, 2.4 and 2.5 shall not apply.

Section 3, Occurrence of a Gas Supply Emergency, concerns the activities undertaken during the emergency. The current text concerns the SO asking for physical actions to balance the system, and as such it is proposed that these activities shall not apply to TUs. However, this modification envisages that TUs shall have actions that the SO may require of them which can contribute to resolving an emergency. Therefore it is proposed that Section 3.1 shall apply to TUs.

Sections 3.2, 3.3, 3.4 and 3.5 concern the types of Emergency and all concern physical throughput actions, and so it is proposed that TUs will not be applicable to these sections.

Section 3.6, Return to normal operation; it is proposed that this Section shall apply to TUs.

Section 4, Consequences of Emergency; it is proposed that this Section shall apply to TUs.

Section 5, Safety Monitor and Firm Gas Monitor; it is proposed that this Section shall not apply to TUs.

Section 6, Emergency Curtailment, applies only to Supply Points, and so therefore it is proposed that this Section shall not apply to TUs.

Section 7, Storage Curtailment; it is proposed that this section shall not apply to TUs.

Section 8, Class A Contingencies; it is proposed that this Section shall apply to TUs.

TPD Section R concerns the conveyance of gas (Storage) and therefore it is proposed that this Section shall not be applicable to TUs.

TPD Section S concerns Invoicing and Payment. TUs are able to incur Daily Imbalance Charges as described in Section E, and as such it is proposed that all of Section S shall be applicable to TUs.

TPD U: UK-Link: This Section has recently been modified (Mod 259) to remove the requirement for Shippers to install and maintain the IX. Therefore, it is proposed that TUs shall gain admission to this Section and be considered under the definition of "User" therein, and may or may not choose to have IX equipment installed.

TPD V, General: This Section describes both the admission rules (Section V2) and the Termination rules (Section V4), and as such it is proposed that these Sections will apply to TUs.

It is proposed that Section 2.6 shall have additional paragraphs to detail the UNC Sections to which Trader Users are acceded to.

Section V 1 concerns Ancillary Agreements relating to Entry and Exit points, and it is proposed that this Section shall not apply to TUs.

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Section V 2, User Admission: The current Network Code Framework Agreement and Accession Agreement do not specifically require an acceding party to the Code to hold a Gas Shipper Licence, and therefore Trader Users can sign up to the code using the existing documents, thereby meeting the requirement in V 2.1.1(b). This modification proposes that Section 2.1.1 shall be modified to read such that a person may become a Trader User in relation to the [NTS Total System](#) as well as the existing clause allowing a person to become a Shipper User in relation to a System.

Trader Users shall be applicable to Section V 2 in general, excepting that paragraphs 2.1.2(b), 2.1.2(c), 2.1.2(g) and 2.1.2(i) shall be modified to indicate applicability to Shipper User only. ~~A new paragraph will be added at 2.1.6 to indicate, for the avoidance of doubt, that a person may not become a TU in relation to any other System than the NTS~~ [This Modification does not preclude Trader Users from undertaking trading roles on other systems outside of the UNC.](#)

This Modification proposes that any TU wishing to become party to the UNC as a Shipper User must demonstrate to the Transporters that they can meet the criteria for admission as a Shipper User in accordance with existing rules in this Section V 2.1, following which the existing Trader User will gain the additional responsibilities and rights applicable to Shipper Users. For the avoidance of doubt the User retains its Trader User status at all times until the admission date as a Shipper User, and any and all existing Trade Nominations effected into will be retained following admission as a Shipper User.

Similarly, this Modification proposes that any Shipper User wishing to become party to the UNC as a Trader User must demonstrate to the Transporters that they have met the criteria required to cease Shipper User activities in accordance with existing rules in Section V 4.2 "Voluntary Discontinuance". For the avoidance of doubt the User retains its Shipper User status at all times until the admission date as a Trader User, and any and all existing Trade Nominations effected into will be retained following admission as a Trader User.

It is proposed that Section V 3 shall not apply to TUs. For the avoidance of doubt, this modification proposes that Trader Users shall not have a Code Credit Limit and will not be liable to provide security accordingly.

It is proposed that Section V 4 shall also apply to TUs. Paragraph V 4.3.1(f) (Termination due to revocation of Shipper Licence) applies solely to Shipper Users having had a licence granted, and TUs, by definition, will therefore not be relevant to this clause.

Section V5 is data protection, and therefore it is proposed that this Section shall apply to TUs.

Section V6 is User Agents, and therefore it is proposed that this Section shall apply to TUs.

Section V7 is Transporter as user and therefore it is proposed that this Section shall not apply to TUs.

Section V8 is Liabilities, and therefore it is proposed that this Section shall apply to TUs.

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Section V9 is Neutrality audit for NTS and so therefore it is proposed that this Section shall ~~not~~ apply to TUs, excepting paragraphs 9.5, 9.6 and 9.7, which this Modification proposes shall not apply to TUs.

Section V10 is Compensation in the event of non delivery of gas, and so therefore it is proposed that this Section shall not apply to TUs. However, this Modification proposes a housekeeping change to V 10.1.1(g) which should correctly be numbered 10.1.2

Section V11, General, paragraphs 11.1 and 11.2 contain nothing of relevance to TUs and therefore it is proposed that this Section shall not apply. However, it is proposed that a paragraph shall be added at V 11.3 to ~~reflect that described above for Section D, such that TUs shall not act in a manner that jeopardises, or at the time could be envisaged at some future point to potentially jeopardise, the safe and efficient operation of the pipeline system.~~ ensure that TUs shall not act in a manner that jeopardises, or at the time could be envisaged at some future point to potentially jeopardise, the safe and efficient operation of the pipeline system. This shall follow a similar form to the existing text of the Shipper Licence Standard Conditions 3, paragraph 2. This is included in Section V alongside the Admission requirements for clarity for new applicants.

Section X, Energy Balancing Credit: as described above for Section E, it is possible for a User Trader, to be in an imbalance position at end of day. Therefore, it is proposed that Section X shall apply to TUs.

Section Y concerns the Gas Transportation Charging Methodology and therefore it is proposed that this Section shall not apply to TUs.

Section Z is NG Storage, and it is proposed that this Section shall not apply to TUs, which shall not be able to inject and withdraw from storage, as this would constitute conveyance of gas.

Transition Document

Parts I and IIA of the Transition Document are the general Sections, which apply to all Users, and it is proposed that these Sections shall therefore include TUs. Section IIB applies to Transporters only, and so shall not apply to TUs.

Section IIC, which details the specific transition arrangements, contains Paragraphs ~~that all~~ that all refer to activities involving the conveyance of gas, and therefore it is proposed that TUs shall not apply to this Section.

Section IID: Flexibility Bidding. It is proposed that TUs shall be excluded as the definitions at IID: 2.1.1 (a) and (b) clearly define the bid as being made to deliver extra commodity, or off-take extra commodity, either of which is conveying gas. It is proposed that Trader Users shall not apply to this Section.

Section III concerns the Offtake Arrangements Document, therefore it is proposed that TUs shall not apply (see below).

Modification Rules

Section 1 of the Modification Rules is the introduction, and therefore it is proposed that TUs shall be included within the definition to "User" here, and that Trader Users shall accede to the Modification Rules.

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Therefore Section 2.1, the defined terms, which currently defines both Relevant Shipper and User, shall be modified to include Trader Users.

Section 3, The Modification Panel, concerns the constitution of the Panel and makes provision for the inclusion of User representatives. It is proposed that TUs shall be applicable under the definition of "User" for this Section.

Sections 4 and 5 concern rules for Panel membership and the Panel meetings, therefore it is proposed that both Sections shall be applicable to TUs.

Section 6 describes, amongst other things, the relevant persons and representatives, and it is proposed that this Section shall be updated to include Trader Users.

All other Sections of the Modification Rules (7 through 12) are general to the Rules, and therefore it is proposed that these sections shall be applicable to TUs upon admission.

General Terms

Section A of the General Terms concerns Dispute Resolution. It is proposed that this Section shall be relevant to TUs upon admission, and therefore the definition of "Users" here (A1.1.2) shall include TUs.

Section B, General; it is proposed that this Section shall be applicable to TUs, but shall include some changes as follows:

References in paragraph 1 to Shippers Framework Agreement shall apply to TUs as described above under TPD Section V.

Paragraph 2.2.1, definitions of Users, add "Trader User". This shall note both the positive definition of a party to code for the purpose of non-physical market transactions and the limitation on non-conveyance of gas through the [NTS Total System](#).

Paragraph 2.3.3, References to a Party, shall include TUs as potential parties.

TUs shall be appended at 2.4.1 (Effect of Code and liabilities) to include TUs. Also, append TUs to 2.4.4 to include TUs alongside Shippers.

Paragraph 4, UNC Committee; TUs to be included in "Users" definition.

Paragraph 5, Notices and Communications, include TUs as potential parties.

Paragraph 6, General, references parties and Users, TUs shall be relevant to both.

Section 4: C, Interpretation, is generalised and it is proposed that TUs shall be applicable.

Offtake Arrangements Document

The OAD is only relevant to Transporters and not Users by definition, and therefore this Modification proposes no changes to the OAD.

Other Documents

We recognise that changes are likely to be required to the User Pays Guidance Document, v2.0, as a result of this proposed UNC Modification.

As the User Pays Guidance (UPG) document is not a UNC document the relevant changes to the former are not detailed in this proposal, but it is the proposer's intent to

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discuss the potential for changes to the UPG document should the authority direct implementation of this UNC Modification Proposal.

Any subsequent changes found to be necessary will be developed in coordination with all Transporters and we would also welcome any Shipper views. The resulting changes to the UPG document would be presented as a revised version to the UNC Modification Panel for approval.

Changes to the UPG document will only be proposed following implementation the UNC Modification Proposal.

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4 Relevant Objectives

The Proposer believes that this Modification will better facilitate the achievement of

Relevant Objective D: Securing of Effective Competition.

Proposer's view of the benefits against the Code Relevant Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	
b) 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.	
c) Efficient discharge of the licensee's obligations.	
d) 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.	Reduction of barriers to competition
e) 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.	
f) Promotion of efficiency in the implementation and administration of the Code	

Securing of Effective Competition

~~The proposer notes Ofgem's recent consultation 74/10 "Gas and electricity licences— Proposed changes to the Application Regulations and Revocation Schedules of future licences" and considers as such that this proposal to facilitate the accession of parties to the UNC without requiring them to hold a Gas Shipper licence removes a potential barrier to market entry.~~

By allowing parties that do not hold a Shipper Licence to accede to the UNC, a barrier to entry is removed and hence additional parties may participate in the market. This would be consistent with facilitating effective competition. In addition, compliance costs could be reduced for Trader Users since the sections of the UNC that they have to comply with would be pre-defined and mean that they do not need to consider the whole UNC and identify the areas with which they need to comply. This would also be expected to offer a marginal benefit to competition.

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Removing the requirement to hold a Shipper Licence would remove a level of regulatory oversight from one section of the market. The reduced oversight may mean that appropriate checks and sanctions cannot be applied in as timely a manner, thereby increasing market risk for all participants. This could be expected to adversely impact the securing of effective competition.

Removing the requirement to hold a Shipper Licence to raise UNC modifications may encourage some consumers and their representatives to accede to the UNC as Trader Users. This would allow these parties to raise modifications that they believe would help to secure effective competition.

Promotion of efficiency in the implementation and administration of the Code

Enabling a wider range of parties to propose changes to the UNC may not be consistent with efficiency in the administration of the UNC since parties may raise modifications that have no direct impact on themselves but impact the contractual relationship and obligations of other parties.

European developments envisage the establishment of Europe wide passports which market participants would be required to hold. This could introduce a requirement for all to be licensed. Removing the requirement to hold a licence at this time when a similar requirement could be implemented shortly is inconsistent with efficient implementation and administration of the Code.

5 Impacts and Costs

Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
The User Admission process is a User Pays service recognised in the Agency Charging Statement. Therefore since this Modification proposes to amend this area of Xoserve's activities, this Modification is a User Pays Modification by default.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
The proposed split of costs for this Modification is 100% Shipper Users and 0% Transporters. This proposal seeks to facilitate User accession to the UNC and enhances competition between Users. According to the UPG this would suggest a cost split of 100% to Shipper Users.	
Proposed charge(s) for application of Users Pays charges to Shippers	
The charges for the current User Admissions process are administered on a transactional basis. This modification does not propose to change this existing arrangement. This proposal introduces the ability to go through an additional admission process where an existing User can change from Shipper to Trader status, or vice versa, then this will be via a new process of re-admission. The charges for this additional process will be administered on a transactional basis in a similar manner to the existing process.	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
Following the provision of a Rough Order of Magnitude analysis by Xoserve the transactional charge for the re-admission process is estimated to be £0 at this time.	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	None
Operational Processes	None <u>A new process would be required to manage changes in User status</u>
User Pays implications	None <u>A User Pays service would be modified and a new one created.</u>

Impact on Users

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Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	None <u>Users wishing to change status would incur administrative costs.</u>
Development, capital and operating costs	None
Contractual risks	None
Legislative, regulatory and contractual obligations and relationships	None <u>Shipper Users that become Trader Users may no longer hold a Shipper Licence and their regulatory obligations would therefore be reduced.</u>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	None <u>material impact.</u>
Development, capital and operating costs	None <u>material impact.</u>
Recovery of costs	None <u>All costs would be recovered on a User Pays basis.</u>
Price regulation	None
Contractual risks	None
Legislative, regulatory and contractual obligations and relationships	None
Standards of service	None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	None
UNC Committees	None
General administration	None

Impact on Code	
Code section	Potential impact
All	As described in Section 3 of this document.

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	Minor; TUs must be able to utilise the Shipper Information Service, and receive relevant Shipper Interface Documents. <u>None</u>
Network Code Operations Reporting Manual (TPD V12)	Minor; TUs must be able to receive the Shipper Operations Reports (as delivered via the Shipper Information Service); NCORM to potentially be updated should the authority direct implementation of this proposal, but prior to actual implementation. <u>None; examination of the current NCORM highlights that whereas the current document refers to Shippers the UNC states that the NCORM is relevant to all Users, and therefore applies to Trader Users by default.</u>
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

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Impact on Core Industry Documents and other documents	
Transportation Pricing Methodology Statement	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None <u>Minor – introduction of UNC rather than Licence obligation to cooperate may be seen as weakening the obligation, and could create confusion as the UNC obligation does not apply to Shippers</u>
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None <u>Non-UNC parties would be able to accede to the UNC without obtaining a Shipper licence, and would be able to raise UNC modifications.</u>

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6 Implementation

Proposed Implementation Timetable	
Activity	Date
Development Workstream	November 2010 through June August 2011
Modification proposed to Panel for Consultation	July September 2011
Consultation	July September 2011 – August October 2011
Panel consideration	August October 2011
Ofgem Decision	October November 2011
Implementation	Implementation to take place 4 months <u>as soon as possible</u> following authority decision to implement to allow for update of NCORM document.

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7 The Case for Change

In addition to that identified the above, the Proposer has identified the following:

Advantages

- Potentially removes a barrier to entry.
- Reduces costs to accede to the UNC.

Disadvantages

None identified.

8 Legal Text

Below ~~of~~ is the suggested legal text to support the above changes:

Draft 4.0: ~~5 July~~ 17 August 2011

UNIFORM NETWORK CODE CODE MODIFICATION PROPOSAL 0338

REMOVE THE UNC REQUIREMENT FOR A 'GAS TRADER' USER TO HOLD A GAS SHIPPER LICENCE

Suggested legal text

TRANSPORTATION PRINCIPAL DOCUMENT

SECTION B – SYSTEM USE AND CAPACITY

Insert new paragraph 1.13 to read as follows:

"1.13 **Trader User**

In this Section B references to Users exclude Trader User."

SECTION C – NOMINATIONS

Insert new paragraph 1.12 to read as follows:

"1.12 **Trader User**

In this Section C references to Users, except in relation to paragraphs 5 and 6, exclude Trader Users."

SECTION D – OPERATIONAL BALANCING AND TRADING ARRANGEMENTS

Insert new paragraph 1.9 to read as follows:

"1.9 **Trader User**

In this Section D references to Users include Trader Users."

Insert new paragraph 4.9 in Annex D-1 to read as follows:

"4.9 A Trading Participant who is a Trader User:

- (a) may post and accept a Market Offer to enter into a Non-physical Market Transaction;
- (b) may not post but may accept a Market Offer to enter into a Physical Market Transaction."

SECTION E – DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

Insert new paragraph 1.12 to read as follows:

"1.12 **Trader User**

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In this Section E references to Users, except in paragraphs 1.2, 1.6, 1.10, 5 and 9.1.1(a), exclude Trader Users."

SECTION F – SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

Insert new paragraph 1.6 to read as follows:

"1.6 Trader User

In this Section F references to Users, except in paragraphs 1.1, 1.2 and 2 exclude Trader Users."

SECTION G – SUPPLY POINTS

Insert new paragraph 1.20 to read as follows:

"1.20 Trader User

In this Section G references to Users exclude Trader Users."

SECTION H – DEMAND ESTIMATION AND DEMAND FORECASTING

Insert new paragraph 1.11 to read as follows:

"1.11 Trader User

In this Section H references to Users exclude Trader Users."

SECTION I – ENTRY REQUIREMENTS

Insert new paragraph 1.8 to read as follows:

"1.8 Trader User

In this Section I references to Users exclude Trader Users."

SECTION J – EXIT REQUIREMENTS

Insert new paragraph 1.10 to read as follows:

"1.10 Trader User

In this Section J references to Users exclude Trader Users."

SECTION K – OPERATING MARGINS

Insert new paragraph 1.6 to read as follows:

"1.6 Trader User

In this Section K references to Users exclude Trader Users."

SECTION L – MAINTENANCE AND OPERATIONAL PLANNING

Insert new paragraph 1.7 to read as follows:

"1.7 Trader User

In this Section L references to Users exclude Trader Users."

SECTION M – SUPPLY POINT METERING

Insert new paragraph 1.12 to read as follows:

"1.12 Trader User

In this Section M references to Users exclude Trader Users."

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SECTION N – SHRINKAGE

Insert new paragraph 1.6 to read as follows:

"1.6 Trader User

In this Section N references to Users exclude Trader Users."

SECTION O – SYSTEM PLANNING

Insert new paragraph 1.6 to read as follows:

"1.6 Trader User

In this Section O references to Users exclude Trader Users."

SECTION Q – EMERGENCIES

Amend paragraph 1.10. 2 to read as follows:

"Without prejudice to paragraph 1.10.1(b), nothing in this Section Q shall preclude the Transporter from making any request to:

(a) a Shipper User for the purposes of Standard Licence Condition 5(2) of the Shipper's Licence;

(b) a Trader User that it use its best endeavours to comply with all requests made by National Grid NTS (save any which are manifestly unreasonable) for the purpose of, as may be appropriate:

(i) averting or reducing danger to life or property;

(ii) securing the safety of the NTS or the safe conveyance of gas thereby or reducing the risk thereto;

(c) a Shipper User or a Trader User for cooperation pursuant to Regulation 6(1)."

Insert new paragraph 1.13 to read as follows:

"1.13 Trader User

In this Section Q references to Users, except in paragraphs 1.1, 1.2, 1.3, 1.4, 1.5, 1.9, 1.10.1, 1.11, 2.1.1, 2.2, 2.6, 2.7, 3.2, 3.3, 3.4, 3.5, 4 and 8, exclude Trader Users."

SECTION R – STORAGE

Insert new paragraph 1.12 to read as follows:

"1.12 Trader User

In this Section R references to Users exclude Trader Users."

SECTION S – INVOICING AND PAYMENT

Insert new paragraph 1.12 to read as follows:

"1.12 Trader User

In this Section S references to Users include Trader Users."

SECTION U – UK LINK

Insert new paragraph 1.13 to read as follows:

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"1.13 **Trader User**

In this Section U references to Users include Trader Users."

SECTION V – GENERAL

Amend paragraph 1.1.7 to read as follows:

"... exclude Trader Users and DNO Users."

Insert new paragraph 1.2.7 to read as follows:

"1.2.7 In this paragraph 1.2 references to Users exclude Trader Users."

Amend paragraph 2.1.1 to read as follows:

"In order to become a Shipper User in relation to a System or a Trader User in relation to the NTS a person (the "**Applicant User**") must:

- (a) satisfy or secure satisfaction of the relevant requirements in paragraph 2.1.2; and
- (b) "

Amend paragraph 2.1.2(b) to read as follows:

"...where the Applicant User wishes to become a Shipper User, either:
.... "

Amend paragraph 2.1.2(c) to read as follows:

" where the Applicant User wishes to become a Shipper User in relation to an LDZ of which National Grid NTS is not the owner or operator,"

Amend paragraph 2.1.2(g) to read as follows:

" where the Applicant User wishes to become a Shipper User, the Applicant User shall have been assigned:"

Amend paragraph 2.1.2(i) to read as follows:

" where the Applicant User wishes to become a Shipper User, the Applicant User shall have provided "

Insert new paragraphs 2.1.6, and 2.1.7 ~~and 2.1.8~~ to read as follows:

~~2.1.6 — For the avoidance of doubt a person may not become a Trader User in relation to any System other than the NTS.~~

2.1.6~~7~~ Where a Trader User wishes to become a Shipper User the Trader User must:

- (a) notify National Grid NTS, in such form as National Grid NTS may from time to time specify, that it wishes to become a Shipper User;
- (b) satisfy those requirements in paragraph 2.1.2(b), (c), (g) and (i) which the Trader User was not required to secure or satisfy for the purposes of becoming a Trader User; and
- (c) be assigned a revised Secured Credit Limit in accordance with Section X

and the Trader User shall become a Shipper User with effect from the Day which is 3 Business Days after satisfaction of the last of the requirements specified in this paragraph 2.1.67.

2.1.78 Where a Party who is a Shipper User wishes to become a Trader User such Party must:

- (a) cease to be a Shipper User of or in relation to a System (in accordance with paragraph 4.2); and
- (b) become a Trader User in accordance with paragraph 2.1.2 on the date on which it ceases to be a Shipper User."

Insert new paragraph 3.1.9 to read as follows:

"3.1.9 In this paragraph 3 references to Users exclude Trader Users."

Amend paragraph 4.1.6(a) to read as follows:

"...Users include Trader Users, except in relation to paragraph 4.3.1(f), and DNO Users."

Amend paragraph 5.1.3 to read as follows:

"... Users include Trader Users and DNO Users."

Amend paragraph 6.1.5 to read as follows:

"... Include Trader Users and DNO Users."

Amend paragraph 9.1.5 to read as follows:

"... to Users include Trader Users, except in relation to paragraphs 9.5, 9.6 and 9.7, and exclude DNO Users."

Delete paragraph 10.1.1(g).

Insert new paragraph 10.1.2 to read as follows:

"In this paragraph 10 references to Users exclude Trader Users and DNO Users."

Insert new paragraph 11.3 to read as follows:

"11.3 Trader User Requirements

A Trader User shall not knowingly or recklessly pursue any course of conduct (either alone or with some other person) which is likely to prejudice:

- (a) the safe and efficient operation by National Grid NTS of the NTS;
- (b) the safe, economic, and efficient Operational Balancing of the Total System;
- (c) the due functioning of the arrangements set out in National Grid's Network Code.

SECTION X – ENERGY BALANCING CREDIT MANAGEMENT

Insert new paragraph 1.6 to read as follows:

"1.6 Trader User

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In this Section X references to Users include Trader Users."

SECTION Z – NATIONAL GRID LNG STORAGE FACILITIES

Insert new paragraph 1.11 to read as follows:

"1.11 Trader User

In this Section Z references to Users exclude Trader Users."

TRANSITION DOCUMENT

PART IIC – TRANSITIONAL RULES

Insert new paragraph 8.6 to read as follows:

"8.6 Trader User

In paragraphs 8.1, 8.2, 8.3 and 8.4 references to Users exclude Trader Users."

Amend paragraph 9.1.8 to read as follows:

"... are to Shipper Users (and not to Trader Users or DNO Users)."

Amend paragraph 10.1.2 to read as follows:

"... are to DNO Users (and not to Shipper Users or Trader Users)."

PART IID – FLEXIBILITY BIDDING

Number existing text at paragraph 1 as paragraph 1.1 and insert new paragraph 1.2 to read as follows:

"1.2 References in this Part IID to Users exclude Trader Users."

MODIFICATION RULES

Amend definition of 'Relevant Shipper' in paragraph 2.1 to read as follows:

"Relevant Shipper": for the purposes of these Rules only in relation to an Individual Code Modification Proposal means:

- (a) a Shipper User who has a transportation arrangement with the Transporter in respect of the System(s) to which the Individual Network Code relates;
- (b) where such proposal relates to National Grid NTS's Network Code, a Trader User;"

Amend definition of 'User' in paragraph 2.1 to read as follows:

"User": for the purposes of these Rules, references to a User in the context of an Individual Network Code Modification Proposal includes a "Relevant Shipper" and in all contexts:

- (a) includes a Trader User;
- (b) excludes a DNO User;"

GENERAL TERMS

SECTION A – DISPUTE RESOLUTION

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Insert new paragraph 1.8 to read as follows:

"1.8 **Trader User**

In this Section A references to Users include Trader Users."

SECTION B – GENERAL

Amend paragraph 1.5.1(a) to read as follows:

"For the purposes of the Code:

- (a) **"Shippers Framework Agreement"** is the agreement pursuant to which a Transporter's Network Code is made binding between the Transporter and each Shipper User and each Trader User; ..."

Amend paragraph 2.2.1 to read as follows:

"For the purposes of the Code:

- (a) **"Shipper User"** means a person other than a Transporter (but subject to TPD Section V7) or a Trader User who is for the time being bound by the Code pursuant to a Shippers Framework Agreement;
- (b) **"Trader User"** means a person other than National Grid NTS (but subject to TPD Section V7) or a Shipper User who is for the time being bound by the Shippers Framework Agreement to which National Grid NTS is a party for the purposes of submitting undertaking all activities undertaken by a Shipper User (including the submission of Trade Nominations in accordance with TPD Section C5 but excluding (and not for the purpose of) arranging for gas to be introduced into, conveying by means of or taken out of National Grid's Systems and any other activities in respect of which a Trader User is expressly prohibited in accordance with the Code the Total System;
- (c) **"DNO User"** means ; and
- (d) **"User"** means a Shipper User or:
- (i) (subject to paragraph 2.2.5(a)) a Trader User;
- (ii) (subject to paragraph 2.2.5(b)) a DNO User."

Amend paragraph 2.2.2 to read as follows:

"A reference in the Code to a User as a User of (or in relation to) a System is a reference:

- (a) in the case of a Shipper User, to a the Shipper User in its capacity as a person bound (or to be bound) by the Code pursuant to the Shippers Framework Agreement to which the Transporter which owns or operates the System is a party;
- (b) in the case of a Trader User, to the Trader User in its capacity as a person bound (or to be bound) by the Code pursuant to the Shippers Framework Agreement to which National Grid NTS is a party."

Amend paragraph 2.2.5 to read as follows:

"References to Users in different parts of the Code:

- (a) include or exclude Trader Users;
- (b) include or exclude DNO Users
as provided in each such part of the Code (and references to Parties shall be construed accordingly)."

Amend paragraph 2.4.1 to read as follows:

"Nothing in the Code or a Framework Agreement or any Ancillary Agreement creates contractual rights or liabilities:

- (a) between Shipper Users inter se;
- (b) between Trader Users inter se; or
- (c) between DNO Users inter se;
- (d) between any Shipper User and any Trader User;
- (e) between any Shipper User and any DNO User; or
- (f) between any Trader User and any DNO User

except where the Code"

Amend paragraph 3.1.4 to read as follows:

"... include Trader Users and DNO Users."

Amend paragraph 4.3.8 to read as follows:

"... include Trader Users and DNO Users."

Amend paragraph 5.1.9 to read as follows:

"... include Trader Users and DNO Users."

SECTION C – INTERPRETATION

Insert new paragraph 2.1.7 to read as follows:

"2.1.7 In this Section C references to Users include Trader Users."

9 Recommendation

The UNC Modifications Panel has directed that this Development Modification is to be discussed at the Transmission workgroup in order to inform the development of the UNC Modification Proposal that meets with the requirements of all code parties and meshes appropriately with Ofgem's new regulations.

The Proposer invites the Panel to:

- ~~• Receive the Workgroup report on or before July 2011.~~
- ~~• DETERMINE that Modification Proposal 0338 subsequently progress to Consultation.~~
- AGREE that Modification 0338 be issued for consultation;
- REQUEST that legal text be prepared for inclusion in the Draft Modification Report.