

Modification proposal:	Uniform Network Code (UNC) 0373: Governance of NTS connection processes		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	4 July 2012	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

National Grid Gas (NGG) must comply with any reasonable request for a connection under the Gas Act 1986 (as amended). However, in contrast to electricity transmission, electricity and gas distribution networks, there is currently no formal governance of any established timescales, milestones or costs for the physical connection, or enhancement of an existing connection of an offtake or an input to NGG's National Transmission System (NTS) pipeline system.

The connection process may include several phases ranging from the initial discussions between NGG and users, desktop feasibility studies, conceptual studies and detailed design through to physical construction.

UNC 373 is the second modification proposal raised by the industry to tackle this issue. The preceding modification proposal (UNC 273<sup>3</sup>) was raised in November 2009 aiming to create fixed timescales and costs to clarify the processes for feasibility studies<sup>4</sup>. However, as discussion between NGG and the industry progressed, it was recognised that the scope of the modification was too limited, and the proposal was withdrawn in October 2010. UNC 373 was raised in December 2011, but is a continuation of industry-led work undertaken since April 2011.

Users have argued that the current absence of published commitments to fixed timescales and costs creates a lack of transparency and accountability in the connections process in gas. Users believe that it is reasonable that the timescales and costs should be codified. By codifying fixed timescales and costs, both users and NGG expect to be able to better manage each other's expectations.

## The modification proposal

UNC 373 contains a proposal to modify the UNC to include a formal connection offer process for all parties who wish to connect to, or modify an existing connection to, the NTS. It is based on activities that are currently already undertaken by NGG and users but are not set out in any detail within any framework. The industry anticipates that this modification will mean that the connections offer process is governed by clear, transparent arrangements that ensure that all parties are treated equally by NGG and that user requests are managed by NGG within a fixed timeframe. The proposal also places clear expectations of what a user's role should be within the connections offer process.

The Proposal specifies that the connection offers process should consist of the following aspects:

- a formal application form for users to complete;
- definition of the content of an initial connection offer;
- definition of the content of a full connection offer;
- how to request a modification to a connection offer;

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> Governance of Feasibility Study Requests to Support Changes to Network Exit Agreements

<sup>4</sup> Engineering studies undertaken by NGG on behalf of users in order to establish the impact of a user's connection request on the existing infrastructure.

- timescales for NGG to produce an initial and full connection offer (up to 2 and 9 months respectively);
- timescale for user to accept initial and full connection offer (up to 3 months);
- fixed fee for an Initial Connection Offer; and
- a requirement for NGG to review the fixed fee on an annual basis.

UNC 373 also introduces a requirement for NGG to publish the following generic documents:

- technical non-site specific connection specifications and standards;
- a connection offer template;
- network entry/ exit agreements;
- storage agreement;
- an advance reservation of capacity agreement; and
- standard conditions within the construction agreement.

NGG would also be required under UNC 373 to publish on a quarterly basis: the number of application forms submitted; and the number of full and initial connections offers made by NGG.

The proposer considers that these aspects of the connections offer process will provide certainty and consistency to all parties in the treatment of requests to connect either a supply to, or offtake from, the NTS.

The proposer believes UNC 373 will better facilitate the following UNC relevant objectives:

*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; and*

*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.*

### **UNC Panel<sup>5</sup> recommendation**

The Joint Office received eleven responses to its consultation on UNC 373. Nine consultees supported the implementation of the proposal and two provided comments only. At the Modification Panel meeting held on 19 April 2012, ten votes were cast in favour of implementing UNC 373. Therefore the Panel unanimously recommended the implementation of this Proposal.

Due to a number of revisions to the legal text, UNC 373 was re-submitted for reconsideration at the Modification Panel meeting held on 21 June 2012. At the meeting the Modification Panel indicated that they were satisfied that the legal text reflected the intent of the Mod.

### **The Authority's decision**

**We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 30 May 2012. We have considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR<sup>6</sup>. We have concluded that:**

<sup>5</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

<sup>6</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

- 1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>7</sup>; and**
- 2. directing that the modification be made is consistent with our principal objective and statutory duties<sup>8</sup>.**

### **Reasons for our decision**

We agree that the absence of a formal process or commitments from NGG for NTS connections is an unsatisfactory situation. We consider that UNC 373 will define connection arrangements to the NTS into the UNC for the connections offer process and go some way towards ensuring that users receive a good service from NGG. The proposal seeks to formalise an existing connections process that is not transparent and difficult to navigate by users. We have considered UNC 373 against the relevant objectives within Standard Special Condition A11 of the gas transporter licence in reaching our decision.

All the consultees were positive on the benefits that the implementation of UNC 373 would bring to the gas transmission connections process. One consultee highlighted the difference between the formal governance of the capacity allocation process and the “informal” connections process within gas and made a comparison to the corresponding processes in electricity transmission. Another consultee commented that UNC 373 highlighted the fact that the efficient delivery of the physical connection is as important as obtaining system capacity.

We agree that it is important that a defined process is in place to facilitate connection to or modification of the NTS. There is a mismatch between the formal governance of the capacity regime and the informal connections process which UNC 373 seeks to address.

### ***Standard Special Condition (SSC) A11(1) (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.***

The proposer believes that including the connection offer process arrangements within the UNC would provide obligatory timescales for NGG to abide by. The proposer believes this would lead to greater certainty in relation to the full build programme for the developer of the connecting pipeline. In turn, the proposer suggests that this is expected to lead to efficiencies in achieving the necessary consents, procurement and construction of the connecting pipeline and consequently meeting the requirements of SSC A11 (1) (b).

All the consultees have stated that they are satisfied with the impact that the implementation of UNC 373 would have upon this relevant objective. One consultee provided additional comments and stated that the implementation of UNC 373 would clarify and refine procedures thereby leading to a more efficient and economic operation of the combined pipe-line system. Another consultee suggested that the proposed changes would lead to a more efficient, transparent and economic operation of the pipe-line system.

We agree that UNC 373 will provide a clear, transparent co-ordinated approach to managing applications from users to connect to the NTS. We believe that implementation of UNC 373 would enhance the current NTS exit and entry connections process and contribute to establishing the rights and obligations of parties in relation to connection to the NTS. For these reasons, we consider that the implementation of this modification will further the achievement of this relevant objective.

### ***SSC A11 (1) (c) Efficient discharge of the licensee's obligations.***

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<sup>7</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see:

[http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART A - Consolidated +-+Current+Version.pdf](http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf)

<sup>8</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

The proposer believes that transparency and consistency in the treatment of connecting parties will help ensure that each connecting party is dealt with in a non-discriminatory manner. The proposer also highlighted that currently, the connection process is managed by NGG in accordance with timescales that it determines. The proposer suggested that it may mean that NGG would prefer to apply more aggressive timescales to certain connections over others. The proposer believes that the implementation of UNC 373 will remove any ambiguity and require that all connections are treated in the same manner and will ensure that no user gains any unfair advantage thereby meeting SSC A11(1)(c).

Whilst the majority of consultees supported the proposer's view, not all consultees provided further reasoning as to why UNC 373 would further the achievement of SSC A11(1)(c). However, in our view, formalising the existing connections process will contribute to there being a transparent and consistent approach. In particular it ensures that no user obtains any unfair commercial advantage such as benefitting from a preferential or discriminatory arrangement. This helps NGG to discharge its licence obligation under Standard Special Condition A6<sup>9</sup>. For this reason, we consider that the implementation of this modification will further the achievement of this relevant objective.

***SSC A11 (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.***

The proposer indicated that implementation of UNC 373 would ensure that all connections are treated in the same manner and will ensure that no user gains an unfair advantage by NGG applying some connection applications to more aggressive timescales over other connections. As a result, the proposer states that competition between users will be enhanced providing for better facilitation of relevant objective (d). Furthermore, the proposer hoped that if NGG is subject to contracted timescales then this enhanced certainty will result in projects (e.g. new gas storage) being brought to market in a more timely fashion.

In addition, the proposer indicated that greater certainty in relation to timescales and costs would better inform individual user decision making processes and will limit development costs and create efficiencies. Efficiency in decision making and in the deployment of capital is essential in the creation, or fulfilment of a competitive market.

All the consultees have stated that they are satisfied with the impact that the implementation of UNC 373 would have upon this relevant objective. A few provided additional comments. One consultee stated that the implementation of UNC 373 would introduce "greater certainty over timescales and costs which would lead to efficiencies in a connecting party's projects which seek to support a competitive market". Another consultee stated that "improved clarity of procedures can help secure effective competition" as users will have "an equal and clear understanding" and therefore be better informed in the decision-making process. A further consultee stated that implementation of UNC 373 would ensure that NGG treated "all customer applications for a connection offer in a transparent, non-discriminatory manner thereby facilitating competition".

In our view, the key benefit is that UNC 373 will introduce a clear, transparent arrangement that seeks to ensure that all parties are treated equally by NGG and that user requests are managed by NGG within a fixed timeframe. Another important aspect is that UNC 373 will highlight the clear expectations of users' role within the connections offer process. By formalising the process and thus controlling the potential for differential treatment we consider that users will benefit from greater certainty of similar treatment, and that this will facilitate

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<sup>9</sup> Standard Special Condition A6: Conduct of Transportation Business

competition between users. For these reasons, we consider that the implementation of this modification will further the achievement of this relevant objective.

#### *Other issues*

We welcome the level of co-operation amongst industry participants in bringing forward UNC 373. The proposer has been active in driving the modification proposal forward through all industry workgroup discussions. This has been recognised by a number of consultees who have highlighted the degree of collaboration between industry and NGG in order to bring forward the modification proposal. There was general agreement amongst these consultees upon the level of industry interaction. One consultee commented on the time it had taken to develop UNC 373. However, they considered that the process had delivered a proposal that had widespread support from industry and that it could provide a basis for further development.

We are however disappointed with the length of time it has taken to produce legal text that reflects the intent of the modification proposal. UNC 373 was presented in its final format on 22 December 2011, but the legal text that correctly reflected UNC 373 was only made available on 30 May 2012. We hope future modification proposals that are submitted to us are accompanied by legal text that accurately reflects the intent of the modification proposal. This would ensure that delays to our decision making process are minimised and where proposals are approved, modifications to the UNC can be implemented in a timely manner.

We will also consider whether UNC 373 needs to be complemented by licence obligations on NGG in relation to connections.

#### **Decision notice**

**In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 0373: 'Governance of NTS connection processes' be made.**

**Andy Burgess**

**Associate Partner, Transmission and Distribution Policy**

**Signed on behalf of the Authority and authorised for that purpose.**