

NETWORK CODE TO UNIFORM NETWORK CODE,

List of changes – Discussion document, Version 1.0 and presentation to RAWG on 27/01/04: British Gas Comments: DRAFT

General Observations:

British Gas is concerned that the structure of the model as presented may lead to divergence of key industry processes between DNs, this is something we would not feel able to support. We would prefer that all parties acceded to the UNC via a simple framework agreement as now, believing that if all DNs have thin NWCs with their own modification rules, divergence can only be a matter of time.

If due to the Gas Act/GT Licence structure, the DNs are required to have in place a NWC (and hence modification rules), we would wish to see in place a mechanism stipulating that changes can only be proposed via the UNC and the Modification rules would then be used to ensure the Thin codes remain compliant with the UNC .

We also believe that there will be a large number of issues arising during the process of industry development of the DN Sales proposals, with this in mind we wish to make clear that the list of issues provided in this document is not exhaustive and we reserve the right to raise additional issues as they become apparent.

An additional issue which has not been considered is the possible effects of multiple sale dates upon the UNC and financial flows as it seems unlikely that all sales could be completed on the same day.

Detailed comments:

These follow the numbering in the NGT document

Section	Clause Reference	Comment
A	Cat 2, 1.1	“participating transporter” may cause confusion –“distributor” might be preferable to distinguish the DNs from the NTS
	Assumptions	States that the physical route will not be referenced as part of the commercial arrangements – if geographic pricing emerges, this may not appear to be the case
B	Cat 1, exception 1.8.2	It would be preferable to stipulate a joint revision timetable otherwise if NGT and the 8 DNs are acting individually, the potential for price volatility is huge Given the historical frequency of price changes and the fact that the minimum notice is given, this principle is absolutely key to the efficient management of price changes by the community.
	Assumptions	Each Transporter will be required to produce, maintain and publish a (pricing) transportation statement – at least initially (and for a defined period after sale – perhaps 5 years or to 2012) this requirement should stipulate the timetable to be followed in respect of the Transportation Statement, such that all Transporters operate to the same timetable, and that price divergence will not be permitted. In addition to the above, we believe that the format and processes for maintenance and production of pricing schedules should be stipulated either in the UNC or the Licence and that these should be standardised across all participants.
C	Exceptions, 1.7	Although obligations on provision of CV data is delegated to the DN (and presumably ownership of the relevant calorimetry equipment), it does not also seem to delegate obligations in respect of standards of service to Shippers. This lack of explicit delegation of standards occurs in other places as well, and a rule need to be in place to ensure that where such delegation occurs, the Standards of Service move as well.

		We would also welcome clarity at an early stage as to how the CV files will be issued, for example as a single, aggregated file or as one file for each DN and the NTS.
D	Description	Point of clarity: If the DNs are required to manage their own shrinkage, it would seem reasonable that they also account for LDZ Stock, whereas the document appears to indicate that this would be an NTS function
E	Exceptions 6, 7 & 8	We have previously raised concerns with the NGT proposals in respect of invoicing and these concerns have not so far been mitigated in any way. In this area, we believe it is key that in stipulating the duties of the DNs re: reconciliation, a fundamental requirement is that they should all act/process material on the same basis, in the same timescales and to the same Standards of Service. In this area it will also be fundamental to review the operation of the Suppression Guidelines document and ensure that treatment and processing of suppressed reconciliation is standardised across DNs and the NTS.
	Cat 2 6.6 & 7.3	As per the point above, we continue to have concerns in this area, believing that some of the potential requirements may prove onerous for Shippers. This is particularly the case where portions of the reconciliation invoice will, apparently, need to be paid to separate legal entities. At the very least, the UNC provisions need to enforce the same terms and timescales for all entities. Our preference would continue to be to receive a single invoice and make a single payment in respect of each invoice type (taking into account the reconciliation distinction between transportation and energy)
G	General observation	Our understanding of the NGT comments under this section is that Shippers will be required to enter into numerous agreements in addition to the thin form network codes with each DN, these would include: <ul style="list-style-type: none"> • Isolations and Siteworks Agreement with each DN (pending RGMA) • General Conditions of Contract for Site Engineering Works with each DN • Meter Appraisal Scheme We would prefer that such agreements (including the UNC) are standardised with a single accession. If Shippers/Suppliers wish to use an unbundled service, this could be negotiated at that point.
	Cat 2 6.3.4	We believe there may be a possible conflict as the assumptions under (A) stipulate that the physical route will not be referenced as part of the commercial arrangements We are also concerned that the customer may be unreasonably disadvantaged should the NTS/DN(s)/IGTs disagree amongst themselves, leading to the consumer not receiving their preferred type of supply. This requires a clear statement of the process to be followed and the relative priorities to ensure the consumer is not disadvantaged
	Cat 2 6.9.7	Whilst stipulating that FTI would be applied at a National not DN level, this fails to address the issues of how such charges would be treated and how they would be managed under the various sets of allowed revenue. Consideration will also need to be given as to how the current sanctions regime might be revised so as to be robust to separate ownership, recognising the difficulties inherent in applying a national regime to disparate networks
H	General observations	Whilst delegating responsibility for determination of LDZ Demand, Demand Estimation and Demand Forecasting to the DNs, the current suggested changes do not appear to include any absolute stipulation that all these activities will be carried out on the same basis across the country.

		<p>We are of the opinion that this is a basic requirement under the UNC and that divergence from this rule by the DNs should not be permitted. If the DNs are to hold responsibility for such activities, they must be carried out in such a way as to ensure that the risk profile faced by Shippers and Suppliers is not adversely impacted.</p> <p>When stipulating non-divergence, we intend this to mean that the bandings for the various EUCs, Load factors and other contributory variables should all remain standard.</p>
I	Cat 3	<p>There is a proposal to establish a zero risk title transfer at the NTS/LDZ interface from NTS to IDNs, as happens currently and would happen with RDNs.</p> <p>In the new regime going forward, we believe that as part of the discussions around industry protocol, it would be appropriate to consider whether transfers between separate legal entities should be zero risk, prior to seeking to codify the principle.</p>
J	Cat 2	<p>Our interpretation of this provision is that the DN would need to pay the full amounts due under the Failure to Supply/Non-Compliant Gas provisions, but does not receive NTS revenues for this purpose. On the surface this does not appear reasonable, unless provisions are in place for the NTS to refund the full amount of their share to the DN in question.</p> <p>Whilst the assumption states that arrangements will be put in place via the Offtake Code, it is unclear whether the burden will be fairly apportioned, or whether the DN may incur an uncapped liability whereas the NTS' share would be capped.</p> <p>Under the Offtake Code, (10.3/10.4), however, whilst the current 10% cap (on non-compliant gas payments) appears to be reflected with respect to the NTS, but not to the DNs.</p> <p>It is important that NTS and DNs both bear an appropriate share of the burden of failure to perform.</p>
	Assumptions	See comments above.
K		No specific comments at this point
L		No specific comments at this point
M	General Observations	<p>Much of Section M in the UNC is likely to prove "transitional" pending the introduction of RGMA, hence we have chosen not to make detailed comments here.</p> <p>However, we are concerned that no reference is made to the issue of DM Supply Points. We understand that the current proposal is that the metering equipment (and convertor) will not be included in a sale whereas the Dataloggers (and presumably Telemetry) will be.</p> <p>If this is the case we are of the view that careful consideration needs to be given to this dichotomy and how it will effect the management of DM Supply Points, for example DM resynchronisations and subsequent reconciliations, customer site access for two parties simultaneously etc. We are also unclear at this point as to how the obligations with regard to data collection activities for dataloggers and telemetry will be managed.</p> <p>In addition to the above, we are of the view that clarity is required at an early stage as to the management of Primes/Subs, SSMPs and Unique Sites generally.</p>
	Assumption	The assumption that ownership of the Transco assets will not change as they are not part of the sale appears inconsistent with the Transco statement that the Dataloggers will be part of the sale and hence provision needs to be made for this eventuality
N	Assumption	It is noted that the DNO would not be expected to pay NTS transportation charges on the basis that currently the LDZ operator does not do so and it is not proposed to change this

		<p>arrangement.</p> <p>We are of the view that the principle underlying the assumption above requires careful consideration rather than automatic acceptance.</p> <p>Whilst it has not so far been the case that the LDZ operator pays NTS transportation charges, with the operators in separate ownership, it is not clear that this should continue. We would not be supportive of discrimination between DNs, and hence believe that consideration should be given to imposing cost reflective charges on all DNs. As NGT's transportation charges have previously been judged cost reflective, we would propose that the DNs pay the same charges as shippers on transported gas.</p>
O	Assumption	Whilst it is assumed that the TYS obligation rests within the NGT GT Licence, may need to consider the inclusion of a duty to co-operate in the DN licences as well as provisions in the Offtake Code
P		Will need to reflect the outcome of the proposed review of Top-up arrangements
Q	Cat 1, 2	<p>Implies that Transco is replaced by Transporters the whole way through sub section 2. We are not persuaded that this is wholly appropriate in all cases, for example, where a User is required to provide information to Transco under 2.3, it may be more appropriate to provide it to Transco NTS and the relevant transporter (to whose network the consumer is connected, rather than to all transporters as is implied.</p> <p>We recommend that further consideration it given to this point rather than a blanket approach.</p>
	Cat 1 3.5 & 3.6	It is indicated that "Transco" should be replaced using "Transco NTS". We are of the view this may not be appropriate under 3.6.2(ii) as the obligations in respect of demand forecasts etc under section H are delegated to the DNs.
R		No specific comments at this point
S	General Observations	<p>We have recorded elsewhere our concerns in respect of the proposed changes to invoicing and payment processes, hence we do not propose to re-iterate here.</p> <p>However, we are of the view that the changes proposed will have significant impact on shippers and that principles need to be co-operatively agreed between Transco and the community prior to any firm views being established as to the appropriate treatment and required changes under the UNC.</p> <p>At least one alternative model (to that offered by NGT) has been proposed, which, if adopted from the invoicing perspective would radically change the treatment indicated under this section.</p> <p>In view of the uncertainty, we do not propose to comment further at this point, but as noted above, reserve the right to raise additional issues at a later date.</p>
T		No specific comments at this point
U	Assumption	<p>The assumption indicates shared ownership and responsibility for key industry systems, with obligations in respect of particular components being attributed to different owners.</p> <p>This is a matter for concern unless robust governance provisions are put in place to ensure that such shared obligations, ownership and responsibility to not combine to frustrate industry change.</p> <p>Shippers and Suppliers have already recorded difficulties in this area, and should be concerned that these proposals do not further exacerbate the position.</p> <p>We would also be concerned were the proposals to mean that, for example, one DN could frustrate changes required by other participants, this may be a particular concern</p>

		where a DN is acquired as an “investment”.
V	General Observations	<p>A number of changes in this section particularly are predicated on the assumption that Transco’s proposals in respect of the UNC framework etc are adopted, in particular the comments around accession and framework agreements.</p> <p>In our view, whilst a UNC is clearly preferable to a multiplicity of NWCs, and indeed Ofgem has expressed a preference for this approach, the mechanism for giving effect to these proposals has not been decided. When a definitive decision has been made as to the structure of the UNC and how the DNs are brought within the framework, we will comment further.</p>
	Cat 1 1.6	It is not clear that such arrangements would solely apply to Transco as opposed to DNs
	Cat 1, 2	<p>Taking due account of the comments above, we are of the view that this may be inconsistent. If this is a UNC to which users accede via thin form NWCs, it is not clear that the changes in this section are required in this form as presumably the admission requirements would lie in the thin form codes. Conversely, if accession is directly to the main UNC via a framework agreement, the changes may be appropriate.</p> <p>It is also not obvious to us why, if the majority of sub-section 2 will apply to the Transporter (general), clauses 2.3-2.5 would apply only to Transco NTS.</p> <p>(is this the case?)</p>
	Cat 2, 4	Whilst it would appear sensible that termination by an individual DN should not necessarily result in overall termination from the UNC, we believe further discussion is needed prior to agreeing that default against the NTS should result in overall termination. Whilst this may be true in respect of energy balancing default, we are not convinced it should also prove true in respect of other invoices.
	Cat 2, 10	Whilst it would be appropriate to review representation on UNC committees, this also needs to be in the context of wider discussions on the UNC framework and industry governance, as well as recognition that an overall balance of influence will need to be achieved
	Cat 3, 3	<p>The proposals in respect of Code Credit are of considerable concern, both in respect of the possible requirement to provide multiple credit lines and the risk of variance of terms, especially given the point that it is the transporter’s credit terms which are relevant.</p> <p>We believe it is fundamental that credit terms are consistent and consistently applied. We would prefer to provide credit cover as now, believing the costs are likely to be less than those under the proposals</p> <p>Whilst we understand NGT’s reasons for proposing thin form codes based on the GT licence requirement to have in place a network code and a mechanism to modify it, we are not aware of any licence requirement for credit provisions to be separated in this way.</p>
	Cat 3, 3.2.1	<p>Notwithstanding previous comments on the framework to be put in place, we believe that the Transporter Credit Rules proposed must all be identical in every respect.</p> <p>As under (3) above, we are not aware of any requirement for separate Transportation Credit rules to be operated and see no reason why the Transportation Credit Rules cannot be contained within the UNC.</p>
	Assumptions	We are concerned by the assumptions listed. Whilst we would support single credit arrangements across the industry e.g. Transportation as a whole and energy. If the credit arrangements were to be fragmented, we do not consider it appropriate that Transco and the RDNs should be permitted to act as a single entity as we believe there would be clear potential for discriminatory behaviour.

		<p>Equally, whilst DNO's might wish to manage their own credit and monitoring as described, we are of the view that all must operate on standard terms, in which case it would surely be more cost efficient to operate these provisions via the UNC and the Agency</p> <p>Finally, as noted above, whilst we might be willing to support Transco issuing termination for energy reasons, we do not consider that Transco should be treated as a special case on transportation, again, this has clearly discriminatory potential</p>
W	Cat 1	According to the NGT proposals, the DN would be responsible for DM read equipment (and presumably to DM data collection though this is not explicitly stated). It is not clear to us whether this assumption has been validated and agreed by the industry, but given the financial risk to shippers associated with DM sites, we are of the view that the principle should be fully debated before such a decision is made.
	Assumptions	NGT suggests that the DN will have an ongoing licence obligation to fit meters, it does not state how returned meters which have not yet been fully depreciated will be managed.
X	Cat 1	We believe the provisions in this section relate to the NTS SO rather than the NTS and that the two areas should be distinctly recognised, this would be consistent with our comments on Transportation Credit Rules
Z		No specific comments at this point
T D	E	We believe that the result of the proposal not to limit reconciliation periods by the sale date would lead to the prospective purchaser taking the risk of reconciliation (+/-) back to 1/2/98, we are not sure that this risk can be quantified and hence we consider this should affect the purchase price.
	N	We believe that depending on how Shrinkage factors are determined going forwards, there may be a need to consider run-off provisions in respect of the post sale RbD tail
	S	Issue of post sale reconciliation needs additional consideration
	Section IV	As well as concerns with respect to the treatment of reconciliation pre and post cutover, we are of the view that consideration will need to be given to energy imbalances spanning the sale period.