

Objectives in the UNC

Scope of this note

This note discusses options for setting objectives in the UNC. It is intended to be the basis of discussion for the working group.

What the objectives of the UNC should achieve

- The objectives must allow the participants in the code to predict the success or failure of their proposed modification by aligning the proposal to relevant objectives.
- The objectives must be as unambiguous in their interpretation as possible
- The objectives must attempt to equitably reconcile competing commercial interests

How different types of objectives can be used

Whilst objectives can be defined as something that an organisation is to planning to do or achieve, there are a number of forms of objectives this can take-

- As a set of aspirations for development of the code
- Define guiding principles to inform future developments
- As operating guidelines to define specific activities/ division of responsibilities
- A series of objectives that would form the basis of a constitution

Examples of objectives in industry codes

The objectives of the codes currently in force are set out in the Transmission and Transportation licences. The majority of the codes are aspirational/ provide guiding principles (Table 1) though the BSC has an extensive licence condition which is relatively prescriptive (see Annex 1).

Table 1 Existing objectives in the codes

	Aspiration	Guiding principles	Operation prescription	Constitutional
Network Code	•	•		
CUSC	•	•		
BSC	•	•	•	(?)

In all cases there is a requirement of the codes to deliver efficient and economic operation of the code (see Table 2). The BSC code has specific remit for their panel members as well as an extensive licence condition. In contrast, CUSC has two simple objectives (though this is probably linked to the more specific nature of connections as opposed to the broader settlement process that encompasses a larger number of industry participants).

Table 2 Objectives within the existing codes

Code	Key quotes in the licence (see Annex 1 for full text)
Network Code	the efficient and economic operation by the licensee of its pipe –line system; the efficient discharge of its obligations under this licence; the securing of effective competition between relevant shippers and between relevant suppliers
CUSC	facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity; that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs incurred by the licensee in its transmission business; and
BSC	the efficient discharge by the licensee of the obligations imposed upon it by this licence; the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system;

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	promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity; without prejudice to paragraph 10, promoting efficiency in the implementation and administration of the balancing and settlement arrangements described in paragraph 2.
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Factors to consider in objective selection

- Are they consistent with the objectives of Utility legislation?
- Are they consistent with other industry codes?
- At what point in the process should the objectives be placed? In the licence, should there be special set of objectives for the Panel?
- The number and complexity of the new objectives
- Scope to change or reprioritise objectives if they become irrelevant

Recommendations

Any proposed objectives for the UNC should be consistent with the three basic elements in the existing codes-

1. Competitiveness markets objective

There should be a test that reflects the general regulatory objective to promote competitive markets. This should ensure that any proposed modification (at its extreme) would not be a blatant attempt to extract monopoly rents by the network operator and should prevent a shipper intent on limiting competition either up or downstream.

A simple easy to understand objective would be to-

“Secure effective competition”

This is consistent with the existing formulation in the network code section of the licence.

2. Efficiency objective

There should be a test that encourages the efficient operation of the relationship between contracting parties and the networks.

“The efficient, economic and co-ordinated operation of the network(s)”

This drafting is consistent with the BSC.

3. Discharge of licence obligations

The network owners need for comfort that any proposed modification would not prevent them from discharging their licence obligations.

“The efficient discharge of its obligations under this licence”

Following current industry practice the objectives of the codes should be contained in the licence condition.

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ANNEX 1

CUSC

In paragraphs 1, 2 and 3 “the relevant objectives” shall mean the following objectives:

- (a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- (b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs incurred by the licensee in its transmission business; and
- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in the licensee’s transmission business.

Network Code

The licensee shall establish transportation arrangements in respect of matters other than those to which standard conditions 4 (Charging Gas Shippers - General) and 4A (Obligations as Regards Charging Methodology) relate which are calculated, consistently with the licensee’s duties under section 9 of the Act, to facilitate the achievement of the following objectives -

- (a) the efficient and economic operation by the licensee of its pipe -line system;
- (b) so far as is consistent with sub -paragraph (a), the efficient discharge of its obligations under this licence;
- (c) so far as is consistent with sub -paragraphs (a) and (b), the securing of effective competition between relevant shippers and between relevant suppliers; and
- (d) so far as is so consistent,

BSC

The licensee shall at all times have in force a BSC, being a document

- (a) setting out the terms of the balancing and settlement arrangements described in paragraph 2;
 - (b) designed so that the balancing and settlement arrangements facilitate achievement of the objectives set out in paragraph 3; and
 - (c) including the modification procedures required by paragraph 4 and the matters required by paragraphs 6 and (where applicable) 10.
- and the licensee shall be taken to comply with this paragraph by adopting as the BSC in force with effect from the date this condition comes into effect the document designated by the Secretary of State for the purpose of this condition and by modifying such document from time to time in accordance with the provisions of paragraphs 4 and 5.

2. The balancing and settlement arrangements are

- (a) arrangements pursuant to which BSC Parties may make, and the licensee may accept, offers or bids to increase or decrease the quantities of electricity to be delivered to or taken off the total system at any time or during any period so as to assist the licensee in operating and balancing the licensee’s transmission system; and for the settlement of financial obligations (between BSC Parties, or between BSC Parties and the licensee) arising from the acceptance of such offers or bids; and

(b) arrangements:

for the determination and allocation to BSC Parties of the quantities of electricity delivered to and taken off the total system, and

- (ii) which set, and provide for the determination and financial settlement of, obligations between BSC Parties, or (in relation to the operation of the licensee’s transmission system) between BSC Parties and the licensee, arising by reference to the quantities referred to in sub-paragraph (i), including the imbalances (after taking account of the arrangements referred to in sub-paragraph (a)) between such quantities and the quantities of electricity contracted for sale and purchase between BSC Parties.

3. The objectives referred to in paragraph 1(b) are:

- (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- (b) the efficient, economic and co-ordinated operation by the licensee of the licensee’s transmission system;
- (c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity;
- (d) without prejudice to paragraph 10, promoting efficiency in the implementation and administration of the balancing and settlement arrangements described in paragraph 2.

4. The BSC shall include procedures for its own modification (including procedures for the modification of the modification procedures themselves), which procedures shall

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provide (without prejudice to any procedures for modification of the BSC set out in the programme implementation scheme provided for in standard condition C4 (NETA Implementation) or in the BSC by reference to the programme implementation scheme):

for proposals for modification of the BSC to be made by the licensee, BSC Parties and such other persons or bodies as the BSC may provide;

(b) where such a proposal is made,

(i) for bringing the proposal to the attention of BSC Parties and such other persons as may have an appropriate interest in it;

(ii) for proper consideration of any representations on the proposal;

(iii) for properly evaluating whether the proposed modification would better facilitate achieving the applicable BSC objective(s), provided that so far as any such evaluation requires information which is not generally available concerning the licensee or the licensee's transmission system, such evaluation shall be made on the basis of the licensee's proper assessment (which the licensee shall make available for these purposes) of the effect of the proposed modification on the matters referred to in paragraphs 3(a) and (b);

(iv) for development of any alternative modification which may, as compared with the proposed modification, better facilitate achieving the applicable BSC objective(s);

(v) for the preparation of a report

- setting out the proposed modification and any alternative,

- evaluating the proposed modification and any alternative,

- assessing the extent to which the proposed modification or any alternative would better facilitate achieving the applicable BSC objective(s),

- assessing the impact of the modification on the core industry documents and the changes expected to be required to such documents as a consequence of such modification,

- setting out a timetable for implementation of the modification and any alternative, including the date with effect from which such modification (if made) is to take effect; and

for the submission of the report to the Authority as soon after the proposal is made as is appropriate (taking into account the complexity, importance and urgency of the modification) for the proper execution and completion of the steps in sub-paragraphs (i) to (v);

(c) for the timetable (referred to in sub-paragraph (b)(v)) for implementation of any modification to be such as will enable the modification to take effect as soon as practicable after the Authority has directed such modification to be made, account being taken of the complexity, importance and urgency of the modification, and for that timetable to be extended with the consent of or as directed by the Authority;

(d) for empowering the licensee to secure, if so directed by the Authority in circumstances specified in the BSC,

(i) that the modification procedures are complied with in respect of any particular modification in accordance with the terms of the direction;

(ii) that, where a modification has been made but not implemented in accordance with its terms, all reasonable steps are taken to implement it in accordance with the terms of the direction and

(iii) that the licensee can recover its reasonable costs and expenses properly incurred in complying with the direction.

5. (a) If a report has been submitted to the Authority pursuant to the procedures described in paragraph 4(b)(vi), and the Authority is of the opinion that a modification set out in such report would, as compared with the then existing provisions of the BSC and any other modifications set out in such report, better facilitate achieving the applicable BSC objective(s), the Authority may direct the licensee to make that modification.

(b) The licensee shall have power (by executing an appropriate instrument) to modify the BSC in accordance with any direction of the Authority pursuant to sub-paragraph (a), or paragraph 7 of standard condition C4 (NETA Implementation), and shall modify it in accordance with every such direction; but it shall not have power to modify the BSC in any other circumstance.

(c) Only the licensee shall have power to modify the BSC.

6. The BSC shall provide for:

(a) a copy of the BSC to be provided to any person requesting the same upon payment of an amount not exceeding the reasonable costs of making and providing such copy;

(b) the licensee to refer to the Authority for determination, whether of its own motion or as provided in the BSC, such matters arising under the BSC as may be specified in the BSC;

(c) information about the operation of the BSC and the balancing and settlement arrangements

(i) to be provided to the Authority and/or

(ii) to be published,

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and for the licensee to be empowered to secure compliance with these requirements if so directed by the Authority.

7. The BSC may include:

(a) arrangements to facilitate or secure compliance with the programme implementation scheme designated pursuant to standard condition C4 (NETA Implementation) or matters envisaged there under, and

(b) arrangements for final settlement and reconciliation of liabilities arising under or in connection with the Pooling and Settlement Agreement in respect of settlement periods prior to the effective time.

The provisions of paragraphs 6, 7, 10 and 12 shall not limit the matters which may be provided for in the BSC.

9. The Authority may direct the licensee to procure the provision to him of, or the publication of, such information about the operation of the BSC and/or the balancing and settlement arrangements as is referred to in paragraph 6(c) and specified in the direction.

10. (a) The BSC shall provide for arrangements pursuant to which, if sub-paragraph (b) has effect

(i) modifications proposed in respect of one code shall (in so far as applicable thereto) be proposed in respect of the other code,

(ii) the modifications procedures under each code may so far as practicable be co-ordinated, and

(iii) all reasonable steps are taken to secure that rights in respect of computer systems used in support of the implementation of the BSC are made available to support the implementation of the other code on terms approved by the Authority.

(b) This sub-paragraph shall have effect if any licence authorising the transmission of electricity in an area in Scotland includes a condition pursuant to which there are or are to be arrangements equivalent to the BSC applying in Scotland or part of it.

(c) In this paragraph, "code" means the BSC and any equivalent arrangements applying in Scotland or part of it and approved by the Authority for the purpose of this condition.

11. The licensee shall comply with:

(a) the BSC; and

(b) any direction to the licensee made pursuant to this condition.

12. (a) The licensee shall be a party to the BSC Framework Agreement.

(b) The BSC and/or the BSC Framework Agreement shall contain provisions:

(i) for admitting as an additional party to the BSC Framework Agreement any person who accepts the terms and fulfils the conditions (each as specified in the BSC) on which accession to the BSC Framework Agreement is offered;

(ii) for the licensee to refer to the Authority for determination, whether of its own motion or as provided in the BSC any dispute which shall arise as to whether a person seeking to be admitted as a party to the BSC Framework Agreement has fulfilled any accession conditions; and if the Authority determines that the person seeking admission has fulfilled all relevant accession conditions, for admitting such person as a party to the BSC Framework Agreement.

(iii) for persons to be admitted as additional parties to the BSC Framework Agreement by either

- a representative (who need not be a BSC Party) appointed

thereunder to act on behalf of all parties to it, or

- if there is no such representative or if the representative fails to act, the licensee acting on behalf of all parties to it.

(c) If, following a determination of the Authority as referred to in sub-paragraph

(b)(ii), the representative referred to in sub-paragraph b(iii) fails to act on behalf of all parties to admit such person, the licensee shall act on behalf of all parties to admit such person if directed to do so by the Authority.

13. The licensee shall take all reasonable measures to secure and implement (consistently with the procedures applicable under or in relation to the core industry documents to which it is party (or in relation to which it holds rights in respect of amendment)), and shall not take any steps to prevent or unduly delay, changes to those documents, such changes being changes which are appropriate in order to give full and timely effect to and/or in consequence of any modification which has been made to the BSC.

14. For the avoidance of doubt, paragraph 13 is without prejudice to any rights of approval, veto or direction in respect of proposed changes to the documents referred to in paragraph 13 which the Authority may have.

BSC panel

1.2 Panel objectives

1.2.1 The Panel shall conduct its business under the Code with a view to achieving the following objectives:

(a) that the Code is given effect fully and promptly and in accordance with its terms;

(b) that the Code is given effect in such manner as will facilitate achievement of the

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objectives (so far as applicable to the manner in which the Code is given effect) set out in Condition C3(3)(a) to (c) of the Transmission Licence, namely:

(i) the efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence;

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(ii) the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System, and

(iii) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase (as defined in the Transmission Licence) of electricity;

(c) that the Code is given effect without undue discrimination between Parties or classes of Party;

(d) consistent with the full and proper discharge of the functions and responsibilities of the Panel and BSCCo, that the Code is given effect as economically and efficiently as is reasonably practicable; and

(e) subject to the express provisions of the Code (including provisions as to confidentiality and including paragraph 1.2.2) and to any other duties of confidence owed to third parties, that there is transparency and openness in the conduct of the business of the Panel and BSCCo.

1.2.2 The objective set out in paragraph 1.2.1(e) applies save to the extent that to apply such objective would, in the Panel's opinion, substantially prejudice the interests of all Parties collectively or of a class of Parties collectively.

1.2.3 Insofar as the Panel Chairman or other individual Panel Members or the Panel Secretary have functions under the Code which they may or must carry out individually, the provisions of this paragraph 1.2 shall apply to the Panel Chairman, other individual Panel Member or Panel Secretary (as the case may be), as if references to the Panel in this paragraph 1.2 were references to such person, to the extent those provisions are applicable to such function.