

Modification proposal:	Uniform Network Code (UNC) 059: Extending established UNC governance arrangements to include the Network Code Validation Rules document referenced in Section M1.5.3		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	20 October 2006	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

There are a number of procedural documents referred to in the UNC which set out how both Gas Transporters (GTs) and Users are required to implement certain UNC obligations. However, whilst these documents may be referred to in the UNC, in some cases they are not themselves subject to joint ownership or governance; in particular change control has so far been largely at the discretion of the GTs.

On 23 March 2005, the Authority directed the implementation of Network Code modification 730³, which had the effect of making revisions to certain documents subject to the approval by panel majority of the Network Code Committee. It was recognised at the time that the list of documents referred to in that modification was not exhaustive, though the proposer also envisaged that any new procedural document setting out the detailed matters for the implementation of the Network Code obligations would also be covered by that proposal.

Meter readings must be submitted by UNC Users to the GTs in order to facilitate key processes such as system balancing and settlements. The (Uniform) Network Code Validation Rules (the Rules) document describes the validation rules that are applied to readings from daily and non-daily meters and convertors before being loaded into GT systems. Any changes to the parameters for this validation are subject to procedures set out in Section M1.5.3 of the UNC and will be notified to Users with not less than 3 months notice. Whilst the Authority is not required to approve such changes, it may apply a veto should any User make an application for it to do so within one month of the notification.

The modification proposal

This modification proposal is intended to extend the UNC governance arrangements to include the Rules. In particular, the proposal seeks to make changes to the Rules subject to approval by majority vote of what is now the UNC Committee (UNCC). The proposal would allow Users as well as GTs to instigate such changes.

The proposal also seeks to place a generic obligation upon GTs to publish the Rules on the Joint Office of Gas Transporters website, and for any subsequent revision to the Rules to be appropriately version numbered, with previous versions remaining available.

The proposer considers that this will facilitate the relevant objectives of the UNC by improving transparency and accountability. They believe this will contribute both to the

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

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

³ [Extending established Network Code governance arrangements to relevant Transco documents.](#)

efficient and economic operation by the GTs of the pipeline system and increase certainty and confidence of all UNC parties, thereby facilitating competition between shippers and suppliers.

UNC Panel⁴ recommendation

At its meeting of 16 March 2006, the UNC modification panel recommended by a majority that this proposal be implemented.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 October 2006. The Authority has also considered and taken into account the responses to the Joint Office's consultation on the modification proposal⁵ and has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁶; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

We note that the Joint Office received nine responses to its consultation on this modification proposal, of which seven were supportive.

As set out in our decision on Network Code modification 730, we consider that the incorporation of documents referenced in what is now the UNC into UNC governance increases transparency and accountability. To the extent that this gives parties greater confidence in the UNC arrangements and demonstrates a level playing field, we agree with those respondents who suggested that this proposal will further facilitate effective competition. Also, we agree with the majority of respondents (both for and against the proposal) who provided assessment of this proposal primarily against relevant objective f), the promotion of efficiency in the implementation and administration of the UNC.

Whilst Network Code modification 730 was predicated on the lack of formal governance around certain operational documents, this is not the case for the Rules, which are already subject to UNC governance. At present, the UNC requires that any revisions to the Rules are consulted upon with the UNCC or any relevant sub-committee. However, the UNC does not require that the UNCC approve those revisions, by panel majority or otherwise, before they are implemented.

This proposal also allows Users to propose revisions to the Rules, a right which is currently restricted to GTs. One respondent who was opposed to the proposal recognised that there may be merit in such a change, but felt that the potential material impact upon Users would make consultation through the normal UNC modification process more

⁴ The UNC Panel is established in accordance with the UNC Modification Rules.

⁵ UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁶ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://62.173.69.60/document_fetch.php?documentid=6547

⁷ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed primarily in the Gas Act 1986.

appropriate. We would agree that any changes with a potential material impact upon Users could appropriately be progressed through a UNC modification proposal, but note that nothing in this proposal would preclude such a modification being raised. Indeed the proposal envisages that such a modification proposal would be raised where the UNCC is unable to reach a panel majority. We anticipate that this could also be prompted in any instance where the UNCC does not feel comfortable or able to make such a decision, notwithstanding that it may also refer matters to any relevant sub-committee.

The two respondents who opposed the implementation of this proposal did so largely on the basis that they considered it would be inappropriate to remove the Authority from being the arbiter in the change process for the Rules. However, nothing in the proposal or the accompanying legal text removes the ability for Users to object to a change to the Rules, as provided for under Section M1.5.3 of the UNC. We therefore consider that appropriate safeguards have been retained in the event that any User feels that the UNCC has not reached a reasonable and correct decision. Given that all UNC Parties are now able to raise a change to the Rules, further consideration could be given to also extending to all UNC Parties the right to refer matters to the Authority.

We understand that in keeping with discussions at the Governance workstream, the proposers' intention is that the UNCC will also have a role in determining when changes it approves to the Rules should be made. Users will retain the right to apply to the Authority for the modification to be vetoed under Standard Special Condition A11 (18) of the GT licence which, which may be made within one month of the notification, as set out above. We anticipate that the UNCC will therefore not agree to any notification period of less than one month.

Some aspects of this proposal have already been implemented, for instance the Rules are now available on the Joint Office website⁸. We consider there is some merit in the publication of this document being clearly set out as an obligation in the UNC, thereby ensuring its ongoing provision, rather than on a purely custom and practice basis.

We consider that the implementation of this proposal would be consistent with the Authority's duty to have regard to the principles of best regulatory practice. In particular, in the UNCC having a role in approving revisions to this and other operational documents, rather than necessarily needing to be referred to Ofgem, this proposal will not only improve transparency and accountability, but ensure that the role of Ofgem is appropriately targeted to those cases where its involvement is necessary, i.e. where the UNC parties cannot amongst themselves agree to a revision to the Rules.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC059: *'Extending established UNC governance arrangements to include the Network Code Validation Rules document referenced in Section M1.5.3'* be made.



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⁸ www.gasgovernance.com/NR/rdonlyres/81B5B8F1-A98C-4B6A-B201-875BFA0553CA/9965/NCORMv50.pdf

⁹ Signed on behalf of the Authority and authorised for that purpose