

Maxine Frerk
Ofgem
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Dear Maxine,

Re: Further review of industry code governance

Thank you for the opportunity to respond to your open letter. Northern Gas Networks (NGN) has been actively involved in the previous changes to code governance and continues to engage on a daily basis with the relevant gas codes.

The introduction of the Significant Code Review (SCR) and Self Governance, particularly to the Uniform Networks Code (UNC) has resulted in significant changes to governance. The initial changes took a considerable time to introduce to ensure that their complexities would integrate into the existing arrangements and on the whole these changes have been successful. As with all changes in governance arrangements, there have been some teething issues, however these have largely been resolved by industry as part of the ongoing Modification process.

Industry change remains a complex area with many parties seeking to modify the existing regime. While we note concerns about smaller parties and their difficulties in engaging with industry governance, within the UNC arrangements the Modification Panel often seek to identify if there are specific issues that may relate to smaller parties and encourage the Joint Office of Transporters in their role as Code Administrator to actively seek views. This supports the role of the Code Administrator as 'critical friend', however it cannot remove the large volume of, often complex, change that exists.

We believe that the existing process seeks to provide a balance between swift resolution of perceived industry shortcomings and providing enough appropriate consultation points to engage with parties that are not able to be actively involved in the ongoing day to day change development. This balance will always be difficult to achieve for all parties and we will continue to encourage the Joint Office and other parties to seek views of those who may not be able to attend meetings in person.

The introduction of the SCR arrangements has had limited impact within gas to date. NGN was not directly involved with the development of the gas security of supply SCR although we are impacted by the result of it. The introduction of final legal text using Secretary of State powers rather than the industry Modification process has resulted in less transparency to some of the changes becoming effective. Many parties follow updates from Code Administrators and most change is referred to by its Modification number. For single code changes, use of the standard Modification route at the end of the Ofgem led SCR process would appear to be a more transparent manner of introducing the final arrangements.

The introduction of Self Governance, and particularly the Fast Track process, into the UNC has resulted in a number of smaller changes being progressed. This process has taken some time for parties to adapt to, but has overall been successful. Self governance status can often be a matter of interpretation and this may result in less self governance changes than originally anticipated.

Charging methodology changes have been limited and while implementation can only be carried out a suitable price change point we do not believe it is necessary to restrict when such changes are raised and developed. These changes usually require considerable development and analysis and we believe that experience to date has not shown that it would be necessary or more efficient to introduce more restrictive arrangement for the raising of such Modifications. It is the implementation date that is more critical for these changes, and for the UNC Transporters set this in conjunction with system change.

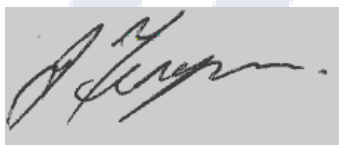
Further reform of a substantial nature does not appear to be necessary as some of the previous changes continue to be refined where practical.

We do, however, believe that the Code Administrators role relating to ensuring that change is raised at the appropriate point in time, and into the correct code could be further developed. There have been a number of instances where changes are raised without a necessary level of pre-development which leads to lengthy formal workgroup development. The pre-modification process is not well utilised in gas although the central Agency, Xoserve, and the Transporters themselves would welcome more early discussion. Prior to the Code Governance Review changes there was a more formal Review Group process within UNC arrangements which allowed development prior to formal Modifications being raised. While this arguably can still be done, the lack of formal acknowledgement of this process in the arrangements as led to less early investigative work.

Within the gas sector there appears to be a tendency to raise Modification Proposals against the UNC where they may be more appropriate within the Supply Point Administration Agreement due to the processes involved and parties who benefit. This can lead to issues of dual governance as at a later date corresponding changes then need to be raised to the correct code and further development and consultation undertaken. We believe that it would be more beneficial for Code Administrators to be able to challenge the appropriateness of new proposals in relation to the code under which they are raised, the realistic timescales given any past development and the necessary authority of the raising party.

I hope you find these comments useful and please contact me should you require further information.

Yours sincerely,



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Network Code Manager

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