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value for all customers*

Independent Gas Transporters,
Gas Shippers, Gas Suppliers,
consumer representatives and
other interested parties

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21 July 2006

Dear Colleague,

Initial consultation letter: independent Gas Transporters Network Code governance

Ofgem understands that there is an aspiration by industry participants to introduce new governance arrangements for independent Gas Transporters (iGTs), in the form of an iGT Uniform Network Code (UNC). This appears to have arisen as a consequence of a number of issues, some of which are discussed below.

This letter invites comment on potential options for iGT governance arrangements and seeks respondent's views on the appetite for change and appropriate way forward.

Existing iGT governance arrangements

Each Gas Transporter (GT) is required to enter into transportation arrangements that comply with its network code; a document it is obliged to produce under the terms of its GT licence.

In addition to National Grid and the new independent Gas Distribution Networks (GDNs), there are currently 13 licences held by iGTs, providing connections for around 700,000 consumers. Although there has been consolidation of ownership, resulting in most of these licences being held by four main groups, each iGT must still maintain its own Network Code. Shippers wishing to operate across all networks must therefore accede to, and comply with the terms of each code.

These Network Codes are generally similar, although differences between them can require shippers to use differing processes, with inherent cost and efficiency implications. To achieve common changes, code signatories must raise duplicate modification proposals. However, due to differences in associated modification rules, proposals may progress at different rates. This, plus any implications for associated systems changes, may result in widely varying implementation timetables. Processing these modifications proposals also creates a considerable administrative burden upon the iGTs, Shippers and Ofgem.

iGTs have also developed their own documentation, and in some cases systems, to support their operation. Consequently, there is little consistency in the structure of file formats received from iGTs. This has resulted in bespoke shipper systems and

processes, separate from mainline systems, having to be developed and separately resourced to handle the flow of information between themselves and iGTs.

Future iGT governance arrangements

We understand from industry discussions, for instance at the Gas Forum's iGT workgroup and the Association of iGTs, that there is consensus in favour of developing a UNC for iGTs, in much the same way as a UNC currently sets out transportation arrangements for both National Grid Gas plc and the new GDN owners. It is envisaged that such an iGT UNC would contain provisions relating to transportation arrangements and modification procedures which are common to all iGTs.

Each iGT would also retain its own Network Code, containing provisions particular to its own network(s) and incorporating the provisions of the UNC by reference, operating in much the same way as the 'short form' Network Codes currently used by the DN owners.

As with the existing UNC arrangements, we consider that an iGT UNC would include a role for Ofgem and could also provide for the participation of relevant third parties, such as consumer representatives. The implementation and ongoing administration of these arrangements will also need to be considered. These points are discussed later in this letter.

Whilst this letter focuses on a potential iGT UNC, there are a number of alternatives that could also be usefully explored, as set out below:

Existing iGT network codes

Closer harmony of iGT network codes could be achieved through existing governance arrangements through the use of modification procedures. This option has already been applied to some areas of iGT network codes, for example in relation to the harmonisation of modification rules themselves.

Whilst more effective use of existing codes could provide a lower cost solution, involving minimum change, or offer a 'fall back' in the event that alternative approaches prove unsuccessful, it would not necessarily overcome the issues discussed above.

The Supply Point Administration Agreement (SPAA)

The SPAA currently provides governance, both in terms of change control and compliance, around certain procedures which facilitate the customer transfer process in the retail gas market. Domestic gas suppliers and all GTs are required under their respective licences to be signatories to the SPAA; it therefore already provides for uniform arrangements across all GT networks.

Ofgem notes that one of the long-term aims of developing the SPAA was to enable the migration of supply point administration (SPA) provisions from the network codes, if appropriate. However, Ofgem's initial view is that SPAA, as currently constituted, could not appropriately extend into other areas, such as transportation arrangements. For instance, to the extent that they are still a distinct entity from the supplier, the participation of shippers in SPAA would have to be considered.

The existing UNC

The UNC was developed to facilitate the sale by National Grid of four of its gas DN businesses. Whilst detailed consultation was carried out on the arrangements to be put in place, with the aspiration of providing the best industry agreed solution, the project itself did not encompass iGT governance.

Ofgem understands that, to date, there has been limited analysis of the feasibility of moving to a unified governance structure, possibly through iGTs being incorporated into the existing UNC. Ofgem consider there may be considerable benefits in iGT accession to the UNC, though there are also a number of issues that would need to be given consideration, for instance the use of Xoserve and the Joint Office¹.

- the use and potentially ownership of a single service provider for systems etc;
- the suitability of existing provisions and;
- Price Control implications.

Issues

There are a number of issues around how an iGT UNC would actually operate, rather than what it should contain, such as:

Administration

The new governance arrangements will need to be administered on an ongoing basis, ensuring both the modifications procedure and subsequent document control are carried out thoroughly, expediently and without bias. Several options for discharging this administrative role have been identified:

- Each iGT taking responsibility for administering the iGT UNC in turn;
- A jointly funded contractor;
- The existing Joint Office of Gas Transporters
- An iGT equivalent of the Joint Office.

Each of these options, together with any others that are forthcoming, would need to be fully assessed. However, Ofgem are of the view that the administration of iGT UNC arrangements should appropriately be for industry parties, in particular the iGTs themselves, to determine.

Decision making and enforcement

Ofgem is currently consulting upon its [Industry Codes Compliance Review](#) (ICCR)², which aims to examine the appropriate roles for regulatory enforcement and self-governance of the various contractual codes and agreements within the GB gas and electricity industries. This will cover both the compliance and change control arrangements. The close out for responses to this document is 1 September 2006.

Whilst Ofgem would expect the development of an iGT UNC to be cognisant of the work carried out under the ICCR, particularly any conclusions reached, we do not consider that interested parties are precluded from proceeding with the iGT UNC in the meantime.

¹ See www.xoserve.com and www.gasgovernance.com respectively for details

² Industry Codes Compliance Review Consultation; Ofgem Ref 109/06

Currently, Ofgem is required to make a decision on any modification to the Network Codes, regardless of its nature or materiality. The development of an iGT UNC may present an opportunity to reconsider Ofgem's role in decision making on iGT modification proposals, potentially moving to a more proportionate arrangement. This would be in keeping with the principles of Better Regulation and consistent with recent agreements such as the Supply Point Administration Agreement (SPAA) and Distribution Connection and Use of System Agreement (DCUSA).

Consumer representation

In contrast to a number of existing industry codes and agreements, the iGT network codes do not currently provide for the participation of other interested parties. For instance, the Gas and Electricity Consumer's Council ('energywatch') is able to raise modification proposals to both the BSC and certain areas of the UNC. To date energywatch has raised one modification proposal³, which was subsequently accepted.

Ofgem would welcome early consideration of whether energywatch or any other interested party should have a role in any iGT UNC, particularly as this may facilitate appropriate representation in any development work groups and processes.

Way forward

We consider that the development of an iGT UNC, particularly the drafting of the Code itself, should be lead by industry, perhaps through work groups consisting of iGTs, shippers and other interested parties. Ofgem will be happy to facilitate this process.

Licence modifications

Ofgem's initial view is that the implementation of an IGT UNC would require the modification of the terms of relevant GTs licences. This could be done either by Collective Licence Modification (CLM) or with the consent of each licensee. We consider that licence modifications could occur either prior, or subsequent, to the development of the IGT UNC.

Migration of existing provisions

At its inception the UNC consisted of a single set of terms drawn from National Grid's existing Network Code. In contrast, any new arrangements would need to condense a number of codes into a single agreement. Ofgem considers that this could be achieved in a number of ways, for example:

- Phased – whereby existing individual network codes could initially be retained, from which terms could be migrated, perhaps on a priority basis, into a framework agreement via modification proposals, or
- Wholesale – parties could adopt the terms of an existing network code, then subsequently modify it as desired, or draw up new terms (e.g. task a workgroup to prepare drafting).

³ UNC 006 '3rd party proposal: Publication of near real time data at UK sub-terminals'; accepted 03 May 2006.

Next steps

To progress debate and discussion of the issues in this letter, Ofgem would like to hold an open workshop, to be convened following the August meeting of the Gas Forum's iGT workgroup. This will be held at Ofgem's Millbank offices on 4 August 2006. This may also be an opportunity to set out in greater detail how these issues may be taken forward, subject to responses. If you would like to attend the workshop, please contact Ndidi Njoku by email at industrycodes@Ofgem.gov.uk or by telephone on 020 7901 7354 by 28 July 2006.

Responses

We welcome views on all aspects of this consultation, in particular:

- **Do you support the introduction of an iGT UNC?**
- **Could iGTs appropriately be party to the existing UNC and if so what issues would need to be resolved?**
- **Would you support the early modification of the GT licence to facilitate an iGT UNC?**
- **What further issues do you consider need to be addressed in order to facilitate an iGT UNC and to what timescale?**
- **What should be the role of Ofgem and consumer representatives in an iGT UNC?**

It is open for respondents to mark all or part of their responses as confidential. Responses that are not marked as confidential will be placed on Ofgem's website. Ofgem would prefer that responses are sent by email to industrycodes@ofgem.gov.uk, or alternatively addressed to:

Nick Simpson,
Director, Industry Codes and Licensing,
Ofgem,
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The closing date for responses is **Friday 1 September 2006**.

Yours sincerely



Nick Simpson
Director, Industry Codes and Licensing