ofgem

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Utility Grid Installations Ltd, Shippers and other parties

Dear Colleague,

Modification Proposal UGI13: Formally include the Network Code Modification Rules within the Network Code.

Ofgem[1] has considered the issues arising from modification proposal UGI13: 'Formally include the Network Code modification rules within the Network Code' and has decided to direct Utility Grid Installations Ltd (UGI) to implement the modification, as we believe that it will better facilitate the achievement of the relevant objectives of UGI's Network Code, as set out in Standard Condition 9 of its GT licence. Ofgem also considers that this decision is consistent with its wider statutory duties. In this letter we explain the background to the modification proposal and outline the reasons for making our decision.

Background to the proposal

The GT licence requires UGI to establish transportation arrangements consistent with its duties under section 9 of the Act and to facilitate the achievement of the relevant objectives. These arrangements are to be in a document referred to as the Network Code. The licensee is similarly required to prepare a document setting out the modification procedures for the Network Code.

Currently, the UGI modification rules form a separate document to the Network Code itself. This has implications insofar as the modifications rules are not subject to the governance that they themselves provide, though they may only be changed with the consent of the Authority.

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[1] Ofgem is the office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

The Modification Proposal

Modification proposal UGI13 seeks to include the Network Code modification rules formally into the Network Code itself. In effect this would mean that the modification rules would constitute part of the Network Code and therefore be subject to the same change control procedures, allowing parties to the Network Code to propose changes to the rules.

Respondent's views

UGI received two representations to its consultation on this modification proposal. The respondent supported its implementation, commenting that they support the principle of aligning iGT Network Codes with those of NGT (which now incorporates by reference, the Uniform Network Code).

UGI's View

UGI supports the implementation of this modification proposal, stating that it will allow shippers the ability to propose changes to the modifications rules and provide a common approach to governance across the gas and electricity markets.

Ofgem's View

Ofgem welcomes the principle of more open access to the governance of gas and electricity industry codes by contracted parties. Open and transparent processes underpin effective and efficient consultation and consideration of modification proposals.

This modification should lead to a common approach to governance across the gas and electricity markets, though this is not in itself justification for change, nor a Network Code relevant objective. However, the alignment of certain industry processes can be expected to lead to efficiency gains for all parties and generally facilitate competition, through increased transparency and shipper confidence in the market arrangements.

Ofgem's decision

Having considered the issues arising from this modification proposal Ofgem has decided to direct UGI to implement modification proposal UGI13, as it will contribute to the efficient and economic operation of the pipe-line system by improving the existing governance procedures. To the extent that improved governance can increase transparency and parties' confidence in the market framework, it should also further facilitate the securing of effective competition between gas shippers and suppliers.

If you have any further queries regarding this decision letter please feel free to contact Samantha McEwen on 020 7901 7032.

Yours sincerely,

Nick Simpson,
Director, Modifications