



British Gas Connections Limited,
Shippers and other interested
parties.

Our Ref: Net/Cod/iGT2
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24 May 2005

Dear Colleague,

Modification Proposal BGCL034: 'Formally include the Network Code modification rules within the Network Code'.

Ofgem¹ has considered the issues arising from modification proposal BGCL034: 'Formally include the Network Code Modification Rules within the Network Code' and has decided to direct British Gas Connections Ltd (BGCL) to implement the modification, as we believe that it will better facilitate the achievement of the relevant objectives of BGCL'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 BGCL 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 BGCL 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.

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 BGCL034 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

BGCL received two representations to its consultation on modification proposal BGCL034, both of which supported its implementation. One respondent commented that they supported the principle of aligning iGT Network Codes with those of NGT (which now incorporates by reference, the Uniform Network Code). There were no other substantive comments.

BGCL's View

BGCL does not support the implementation of this modification proposal. It stated its belief that its Network Code modification process is transparent and has operated well and relatively efficiently. BGCL goes on to state that whilst understanding the desire for consistency, where appropriate, in standardising certain Network Code processes and governance arrangements, this does not in itself provide a requirement for change. BGCL also considers there to be a danger that standardisation of the rules and processes may fetter innovation.

Ofgem's View

While the Network Code and modification rules are mentioned separately within the licence, this does not preclude them from being part of the same document. 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.

Ofgem notes and agrees with BGCL's comment that standardisation should not in itself be a driver of change and more pertinently, nor is it a Network Code relevant objective. However, the alignment of certain industry processes can lead to efficiency gains for all parties and generally facilitate competition, through increased transparency and shipper confidence in the market arrangements. Ofgem would also share BGCL's concern if standardisation was to fetter innovation, and it is therefore crucial that each proposal is considered on its own merits.

Ofgem has noted BGCL's view that its modification procedures have worked relatively well to date, and the lack of any contrary evidence in either the proposal or subsequent representations. However, this modification proposal does not itself seek to amend

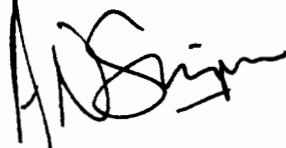
those modification procedures, but merely to ensure that any future changes to those procedures will be conducted in the same manner as any other Network Code modification. Again, any future modification proposals will be considered on their own merits.

Ofgem's decision

Having considered the issues arising from this modification proposal Ofgem has decided to direct BGCL to implement modification proposal BGCL034, 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,

A handwritten signature in black ink, appearing to read 'N Simpson', written over a thin horizontal line.

**Nick Simpson,
Director, Modifications**