

Modification proposal:	<b>Uniform Network Code (UNC) 063: Extending established UNC governance arrangements to include the GRE Invoice Query Incentive Scheme Methodology document referenced in Section S4.6</b>		
Decision:	The Authority <sup>1</sup> has decided to reject this proposal		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	28 September 2006	Implementation Date:	Not applicable

## 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. 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 hitherto been largely at the discretion of the GTs.

On 23 March 2005, the Authority directed the implementation of Network Code modification 730<sup>2</sup>, 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 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.

In November 2000 modification 385<sup>3</sup> introduced incentives on Transco to resolve Gas Reconciled Energy (GRE) invoice queries which are raised and disputed by Shippers. The document known as the GRE Invoice Query Incentive Scheme Methodology (GRE IQISM) is now prepared by National Grid National Transmission System (NG NTS). It sets out the methodology for the calculation of Incentive Payments to be made by GTs when a valid GRE Invoice Query (raised by a User) results in an overpayment of Reconciliation Clearing Charges that fail to be financially adjusted within the agreed service standard timescales. The compensation levels for such failures are set out in section V10 of the UNC.

A thorough review of standards of service was initiated by Users in 2001, and revised with the implementation of modification 565<sup>4</sup> in July 2003. It was determined at that time that the standards introduced by modification 385 should be retained.

## The modification proposal

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

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

<sup>2</sup> Network Code modification 730: '[Extending established Network Code governance arrangements to relevant Transco documents](#)'.

<sup>3</sup> Network Code modification 385: 'Standard of Service on Adjustments to GRE Invoice Queries'.

<sup>4</sup> Network Code modification 565: 'Revision of Network Code Standards of Service'.

The proposal also seeks to place a generic obligation upon GTs to publish the GRE IQISM on the Joint Office of Gas Transporters website, and for subsequent revision to the GRE IQISM 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 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 Panel<sup>5</sup> recommendation**

At its meeting of 16 March 2006, of the 10 voting members present only 5 votes were cast in favour of this proposal. Therefore the UNC modification panel did not recommend the implementation of this proposal.

### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) version 3.0, dated 24 August 2006. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal<sup>6</sup> and has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC<sup>7</sup>.

### **Reasons for the Authority's decision**

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.

In general, we support the concept of changes to ancillary documents being subject to the approval of UNC parties themselves by means of an industry panel, rather than requiring the consent of Ofgem. This is appropriate given the technical operational nature of many ancillary documents and is also consistent with Ofgem's desire to adopt lighter touch regulation. Whilst this streamlined approach could be considered to further facilitate the efficient and economic operation by the GTs of the pipelines system, 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.

However, whilst Network Code modification 730 was predicated on the lack of formal governance around certain operational documents, this is not the case for the GRE IQISM procedures. Firstly, given that the document refers specifically to an incentives methodology, we do not consider it to be in the same category as those documents

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<sup>5</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>6</sup> UNC Modification proposals, Modification Reports and Representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>7</sup> 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](http://62.173.69.60/document_fetch.php?documentid=6547)

referenced under modification 730 and agree with NG NTS, who stated that changes to the GRE IQISM have the potential to materially impact upon it. Secondly, whereas the operational documents listed in modification 730 had little in the way of formal governance and were revised largely at the discretion of the GTs, we consider that the GRE IQISM already falls under the governance of the UNC. As noted by one respondent, the UNC itself refers to the specific version of the GRE IQISM that was agreed with the Authority in February 2003. Any revision to the GRE IQISM would therefore require a UNC modification to have effect.

In conclusion, whilst we support measures that improve the transparency and accountability of UNC ancillary documents, we do not consider that the implementation of this proposal would better facilitate the relevant objectives of the UNC. We consider that the publication of the GRE IQISM would be beneficial as is not currently available on the internet and welcome NG NTS's commitment to seek the publication and subsequent version control of the GRE IQISM document on the Joint Office website. However, we consider that any modification to the standards, whether in the GRE IQISM or elsewhere, should more appropriately be subject to the normal UNC modification procedures.

A handwritten signature in black ink, appearing to read 'A. Simpson', with a horizontal line underneath.

**Nick Simpson**  
**Director, Industry Codes & Licensing**

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