

Modification proposal:	Uniform Network Code (UNC) 181: Scheduling Charges calculation for Gas Flow Days 22, 23, 24, 25 & 26 October 2007 (UNC181)		
Decision:	The Authority ¹ has decided to reject this proposal		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	20 November 2007	Implementation Date:	20 November 2007

Background to the modification proposal

On 22 October 2007, National Grid National Transmission System ("NG NTS") suspended UNC User access to the Gemini system following a series of errors which occurred earlier that day. Code contingency arrangements were initiated, requiring Users to fax nominations directly to NG NTS to upload manually onto the Gemini System. These arrangements remained in place until User access was restored on 26 October 2007.

NG NTS is concerned that during this period, user's ability to provide timely nominations was unavoidably and adversely affected. This in turn appears to have had a significant impact upon the value of the Scheduling Charges payable by Users as set out on the October 2007 Balancing Invoice, to be issued in December 2007.

The modification proposal

UNC181 proposes to amend the methodology upon which Scheduling Charges are calculated for the affected Gas Flow Days². Rather than using the nominations that were submitted by Users and manually input by NG NTS for the affected period, UNC181 proposes to calculate each user's average daily Scheduling Charge based on weekdays (Mon-Fri) across the period 1-21 October 2007.

The Proposer considers that UNC181 is likely to further relevant objectives (d) and (f) as set out in Standard Special Condition A11 (1) of the Gas Transporters Licence as follows:

Relevant objective (d) – the securing of effective competition: (i) between relevant shippers. Implementation of the proposal will:

- allow Users to more accurately assess their financial position over the outage period thereby providing a more stable and equitable base for competition; and
- remove the risk of applying potentially erroneous charges, thereby improving accuracy and cost reflectivity of these charges and in turn facilitating competition between Users.

Relevant objective (f) – the promotion of efficiency in the implementation and administration of the network code and or/uniform network code. Implementation of the proposed amendments will reduce industry time and effort raising and resolving invoice queries arising from the application of UNC contingency arrangements.

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

² The Code Contingency arrangements were in place during Gas Flow Days 22nd, 23rd, 24th, 25th and 26th October 2007.

UNC Panel³ recommendation

The proposal was discussed at the UNC Modification Panel ("the Panel") meeting held on 15 November 2007. As the Panel did not reach a majority, it did not recommend that UNC181 be implemented.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 November 2007. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁴.

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC⁵.

Reasons for the Authority's decision

Relevant objective (d) – the securing of effective competition: (i) between relevant shippers.

We recognise that, as a result of delays associated with the Gemini code contingency arrangements, calculation of Users' Scheduling Charges for the affected period were adversely impacted. Information from NG NTS indicates that total Scheduling Charges for October have, to date, out-turned at approximately 10 times the average monthly total, for the most part concentrated in the period when the Gemini system was down and code contingency arrangements were in effect.

In line with the view of a number of respondents in favour of the proposal, we are sympathetic to Users being charged based on errors resulting from what appears to have been essentially a failure of the code contingency arrangements to record timely and accurate data. However, we agree with some respondents that replacing one set of potentially erroneous Scheduling Charges with another does not provide the most effective solution to the problem. We remain firmly of the view that it is for events such as the Gemini system outage that a UNC disputes mechanism is in place to enable Users to query invoice discrepancies via an established and equitable mechanism.

In addition, we would not wish the proposal to set a precedent, such that if a similar issue were to arise again (eg loss of the Gemini system), Users may not be incentivised to provide accurate nomination data as they may expect charges to be re-calculated after the event.

While we understand that a number of Users in support of the proposal were concerned that pursuing an disputes route would (among other things) result in shippers facing increased financial uncertainty due to the invoice querying process, we do not believe this to be significantly material or unmanageable in this instance. In addition, the modification proposal would not eliminate such uncertainty as Users may raise queries

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

anyway. As such, we do not agree with the Proposer that UNC181 will provide a more stable and equitable basis for effective competition between shippers and do not consider that UNC181 will better facilitate the achievement of relevant objective (d).

Relevant objective (f) –the promotion of efficiency in the implementation and administration of the network code and or/uniform network code.

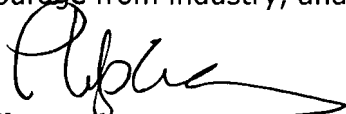
We recognise that a UNC appeals process is in place to allow shippers to query any erroneous invoice charges, and are of the view that this remains the most appropriate route to address errors in shipper's October scheduling charges. While we recognise that a number of Users pursuing the disputes route would result in a draw on industry time and effort raising and responding to queries, we consider that adoption of the proposal would not eliminate the risk of disputes being raised, and that an invoice query through the UNC process would be likely to result in charges being more accurately levied than the averaging method in the proposal.

More importantly, we believe that it is important, so far as is possible, to adhere to established UNC processes and so agree with several respondents opposed to the proposal who considered that short-term one off amendments to the code should not be encouraged and should not set a precedent for future Gemini system failures. We do not consider that implementation of UNC181 will better promote the efficiency in the implementation and administration of the code and so would not better facilitate relevant objective (f).

Wider issues

Recognising that NG NTS is currently in the process of investigating the details of the Gemini system failure, we agree with the majority of respondents who considered that, in light of recent events, it was now necessary to reflect upon the appropriateness of the Gemini system's, and potential other, contingency arrangements going forward.

Further to this, we consider that UNC181 brings to light the wider, more fundamental issue of the appropriateness of scheduling charges. We recognise that the market and supporting arrangements have evolved, and continue to do so, since the days of the Network Code. It is in this context that we believe there may be merit in industry considering further the suitability of scheduling charges, particularly in terms of what they attempt to achieve, what they do achieve and the value of the information they encourage from industry, and provide to NG NTS.



Philip Davies
Director, GB Markets

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