

Modification proposal:	Uniform Network Code (UNC) 259: Removal of Obligations to Install UK Link User Equipment and UK Link User Software for UK Link Users who utilise the services of a UK Link User Agent (UNC259)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	20 January 2010	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

A party (User) which applies to ship gas through the National Transmission System (NTS) or a local Distribution System must comply with the relevant requirements of the UNC Transportation Principal Document (TPD). In particular section V of the TPD requires a User to comply with Section U of the TPD before it can send or receive UK Link³ communications. Section U obliges a User to install and connect UK Link User Equipment and User Software at its premises. The transporter whose System the User intends to use will provide transporter equipment and software on request to the User and this cost is charged to the User. The User's UK Link equipment and software connects to the transporter-provided equipment and software to communicate with UK Link trading systems through a file server (the IX network).

A User with registered premises in the UK is therefore obliged to install and connect User equipment and software whether it subsequently uses it or not. A User located outside the UK is also obliged to install and connect User equipment and software. However, xoserve⁴ has confirmed that the User will not be able to connect to the IX network from overseas and would need to use a UK-based agent to connect.

A number of Users utilise the services of a UK Link User Agent which provides its own UK Link communication service to comply with Section U of the TPD. As a result, any equipment and software which those Users are obliged to install and connect at their own premises is unused, whether they are located in or outside the UK.

Should an Agent terminate a User's service because, for instance, the Agent has stopped trading, it may take upwards of 40 days for the User to install and connect the equipment and software to meet its UNC obligations under Sections U and V. There is a contingency arrangement in place, the XP1 token process⁵, which allows affected Users to continue to trade using UK Link in a secure manner in the interim until they meet their obligation to install and connect the required equipment and software.

There is a concern that Users using the services of an Agent are required to install and connect equipment and software which is redundant and that transporters incur unnecessary costs providing and maintaining it.

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 This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ UK Link describes the electronic information exchange system, including the computer systems, which allow the transfer of information between a Transporter and UK Link Users.

⁴ xoserve manages the systems interface between gas transporters and users.

⁵ An XP1 token is provided to each UK Link User, with a further two tokens available for a charge, to allow the User to gain secure access to UK Link trading systems (Gemini) until UK Link equipment is installed.

The modification proposal

Scotia Gas Networks (the proposer) raised UNC259 to address the concern that the requirements of Sections U and V impose unnecessary costs and obligations on transporters and Users to provide, install and connect equipment and software where Users are utilising the services of Agents.

UNC259 seeks to amend Sections U and V so that:

- a User which utilises an Agent which has already installed operational UK Link User Equipment and User Software is not obliged to install the same equipment and software at its own premises or at the Agent's premises;
- a User which uses an Agent is allowed to remove equipment and software which is already installed at its premises but which is unused; and
- should the agreement with the Agent be terminated, the User would again be required to adhere to its obligation to install and connect User equipment and software.

The proposer considered that removing the obligation on Users to install and connect equipment and software when they are using an Agent would allow them to avoid the associated costs and the costs of transporters' equipment and software. The transporters would also avoid the costs of providing and maintaining equipment and software and, as a result, increase the efficient and economic operation of the pipeline system (UNC Relevant Objective (a)). The proposer also considered that increasing flexibility for Users in how they access UK Link would provide them with more cost effective options which would ensure the efficient implementation of the network code (UNC Relevant Objective (f)).

The proposer indicated that as there are no systems implications arising from implementing UNC259, only legal text changes, it is not relevant for User Pays.

UNC Panel⁶ recommendation

The UNC Panel, at its meeting held on 19 November 2009, considered the draft Final Modification Report for UNC259. Of the 10 voting members present who were able to cast 10 votes, all 10 votes were cast in favour of implementing UNC259. The Panel therefore unanimously recommended that UNC259 is approved.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the revised Final Modification Report (FMR) dated 16 December 2009. 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 FMR⁷. **The Authority has concluded that:**

⁶ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁷ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

- 1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁸; and**
- 2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁹.**

Reasons for the Authority's decision

We note the views of the UNC Panel and of consultation respondents regarding why UNC259 better meets the UNC Relevant Objectives. Our views are set out below.

UNC Relevant Objective (a): the efficient and economic operation of the pipeline system

We note the views of a number of respondents that avoiding the costs associated with code obligations on Users and transporters regarding UK Link User equipment and software at the premises of Users who already contract with an Agent to use equivalent equipment and software would meet this objective.

We agree that avoiding unnecessary costs would be more efficient and economic for transporters. UK Link is an information exchange system used by shippers and transporters to keep each other updated about the existing and proposed use of the gas pipeline system and helps transporters to plan for the future use of pipeline capacity. We agree that, in a broad sense, UK Link does form part of the pipeline system under this objective. In our view, removing an obligation on transporters to pay for the costs of providing and maintaining unnecessary equipment and software would assist them to become more efficient and operate the pipeline system more economically. Therefore we agree that the proposal better meets Relevant Objective (a).

UNC Relevant Objective (d): the securing of effective competition between relevant shippers, between relevant suppliers and between DN operators and relevant shippers

We note the views of one respondent that UNC259 better meets this Relevant Objective on the grounds that a theoretical barrier to entry would be removed for Users using an Agent, as the additional costs of installing and connecting equipment and software will be unnecessary. Other respondents noted that the admission process for Users to the gas market would also be speeded up as a result.

We agree that, despite the low cost involved in installing and connecting equipment and software, there is a marginal competitive benefit if potential new entrants are not required to outlay these costs when they have access to an Agent's equipment and software. Therefore, we agree that Relevant Objective (d) is better met.

UNC Relevant Objective (f): the promotion of efficiency in the implementation and administration of the network code and/or uniform network code

We note the views of a number of respondents that where Users are utilising an Agent's services, it would impose unnecessary costs and be inefficient for them and for transporters to provide and maintain equipment and software which duplicates the Agent's services in order to comply with the existing obligation in the UNC.

⁸ 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

⁹The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

We agree with these respondents that the current wording of the obligation in Sections U and V is absolute and inflexible. Amending it as proposed by UNC259 would allow unnecessary costs to be avoided so that where an Agent is utilised, Users can access UK Link with greater flexibility and impose lower costs on all Users and transporters involved in the gas trading arrangements. We also agree that the revised text would not remove the obligation on Users to install and connect the appropriate User Equipment and Software where an Agent is not used and that there are contingency arrangements in place to facilitate use of UK Link in the interim after an Agent's services are no longer used.

We therefore agree that Relevant Objective (f) is better met by UNC259.

We note and agree that as UNC259 requires no system changes and a change to legal text only, User Pays does not apply. We are also satisfied that approval of UNC259 conforms with the Authority's statutory duties.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 259: "Removal of Obligations to Install UK Link User Equipment and UK Link User Software for UK Link Users who utilise the services of a UK Link User Agent" be made.

**Mark Cox
Associate Partner, Industry Codes and Licensing**

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