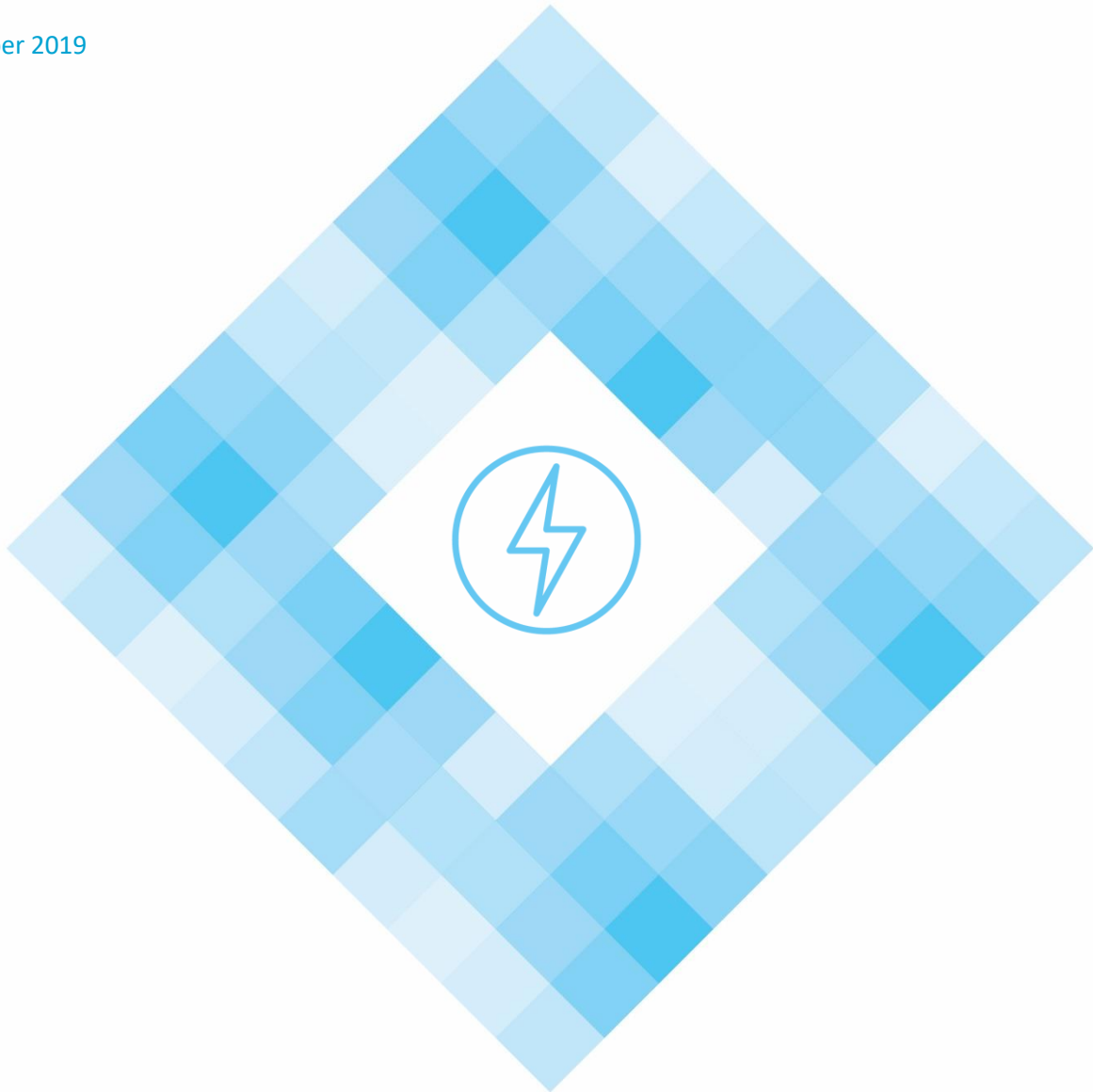


IGT UNC Pipeline User Representation

Review of Current Issue

By IGT UNC Code Administrator

September 2019



IGT UNC Nomination Process

Issue:

The resignation of a Pipeline User representative on the IGT UNC Panel effective from 16th August 2019 has resulted in the Panel no longer being quorate. For an IGT UNC Panel meeting to be quorate in the first instance, there must be two IGT Pipeline Operators and two Pipeline Users Representatives present who can exercise four votes (IGT UNC Part L Clause 6.9).

IGT UNC Part L Clause 6.10 states the following:

“If a quorum is not present at the time for the holding of a meeting (specified in the notice convening the meeting) or at any time during the hour following that time, the meeting shall stand adjourned to such place and time which is as soon as is reasonably practicable as the Code Administrator shall notify to each Member and (for information purposes only) each Pipeline User and each IGT UNC operator. If at such place and time the meeting so adjourned shall not be quorate per Clause 6.9 the Voting Members present shall be a quorum”.

Panel members have expressed concerns around the continued efficient and effective operation of the IGT UNC if quoracy at Panel meetings cannot be achieved.

Operating the Panel under Part L Clause 6.10 of the IGT UNC allows the Panel to continue to function, but without the ideal balance of views as Shippers will be underrepresented. The current Panel members, including Ofgem, have voiced concerns around the lack of Shipper representation within this forum.

Attempted Resolution:

To increase industry awareness of the issue, nomination requests have been sent out to both the IGT UNC and Joint Office distribution lists in August 2019. Due to a lack of nominations the deadline was extended for an additional week ending on 23rd August 2019. Communications were also sent out to energy trade associations, including ICoSS (Industrial and Commercial Shippers and Suppliers), Energy UK and Cornwall Insight (Supplier Forum) to try and highlight the issue further.

There have been no nominations received by the Code Administrator. Panel members have expressed concerns surrounding this issue and the lack of interest in the governance matters of the IGT UNC by the Shipper community.

Cross Code Analysis:

Currently there are a variety of different provisions in place to resolve quoracy issues within industry codes and agreements.

These include meetings being adjourned until a quorum is reached or the Authority/Secretary of State appointing members. An analysis of these different provisions to resolve quoracy issues can be found below.

The IGT UNC is not unique in having this issue, so the approaches taken under the governance across other industry codes has been considered.

Supply Point Administration Agreement (SPAA)

The SPAA Code Administrator has been anticipating the same issue arising for their future SPAA Executive Committee (SPAA EC) meetings. It has placed a message on its website and is planning to raise the issue at the Code Administration Code of Practice (CACoP) meeting scheduled on 17th

September 2019. In addition, the SPAA Code Administrator believes that their issue can be resolved by reducing the quoracy requirements for SPAA EC and this is to be given further consideration.

The SPAA Code Administrator has expressed an interest in how the IGT UNC resolves this issue and in particular if and how any rationale might be used to identify parties to be approached.

Master Registration Agreement Development Board (MDB):

The MDB operates under the Master Registration Agreement (MRA), the membership of this board is made up of eight supplier members (six large and two small) and six Distribution members plus an additional two MDB members one of which is an Independent Distribution member and one is a BSC member.

In order for a resolution to be made the board requires five Supplier members and four Distributor members to be present. If this quoracy is not reached the matter will be deferred until the next scheduled MDB meeting. Decisions cannot be made until quoracy is reached (MRA Agreed Procedure 17 Appendix 2).

Uniform Network Code (UNC)

The UNC Modification Panel allows up to six User representatives and up to five Transporter representatives. However, similarly to the IGT UNC Modification Panel rules only two representatives from each constituency are required for quoracy (UNC Modification Rules Clause 3.3-3.4).

UNC Modification Rules Clause 5.5. states the following:

“Members (of whom two (2) shall be Transporters' Representatives and two (2) shall be Users' Representatives (excluding the Panel Chairperson)) present at a meeting of the Modification Panel who can exercise six (6) votes shall be a quorum.

If a quorum is not present at the time for the holding of a meeting (specified in the notice convening the meeting) or at any time during the hour following that time or shall at any time during the meeting cease to be present for more than fifteen (15) minutes, the meeting shall stand adjourned to the same place and at the time specified in the notice convening the meeting five (5) Business Days later and the Secretary shall notify each Member and (for information purposes only) each User, each Transporter and each Independent Gas Transporter that such is the case. If at such place and time the meeting so adjourned shall not be quorate in accordance with paragraph 5.5.1 the Voting Members (if any) present shall be a quorum.”

This remedy is similar in the approach that is used in the IGT UNC.

Green Deal Arrangements Agreement (GDAA):

The IGT UNC Code Administrator has been in contact with the GDAA Panel Secretary. It was highlighted that the GDAA Panel are also facing quoracy issues and is unable to make decisions in meetings. For the GDAA, the Department for Business, Energy and Industry Strategy (BEIS) have sent out correspondence to GDAA Suppliers and Green Deal Expert Group (GDEG) members requesting volunteers to join the Panel however this has been unsuccessful. However, the requirement in the Agreement is specified below:

“If at any time any category of party fails to provide a Panel Member, the Panel Secretary shall, with regard to Clauses 5.4.3, 5.4.5 and 5.4.8, within two (2) Working Days request the Secretary of State to make the appointment, and the Secretary of State shall have the power, until that category of party has decided upon an appointment and notified the Secretary of State accordingly, to appoint a Panel

Member on behalf of that category of party or to remove any such person so appointed by the Secretary of State (GDAA Part 2 Clause 5.6.7)."

Smart Energy Code (SEC):

In this instance when the SEC Panel is non quorate due to membership issues, the process outlined below is followed to appoint a new member:

"Where there are fewer eligible candidates for a Party Category than there are positions to be filled as Elected Members for that Party Category (including where there are no eligible candidates), the Authority will (at its discretion) be entitled to nominate an Elected Member for that Party Category. Where this Section C4.3(c) applies, the Panel shall be entitled (at any time thereafter) to determine that a further Interim Election should be held in accordance with C4.2 in respect of that Party Category." (Section C Clause 4.3c).

Options for Resolution:

Below are some proposals to assist in the mitigation of the issue of quoracy at Panel Meetings.

1. Reducing the quoracy requirements:

Reducing the current number of Panel members required for quorum to be reached. For instance, the IGT UNC Panel quoracy requirements could be reduced to one Pipeline Operator and one Pipeline User.

This would allow the business of the Panel to continue at this time. There would still be two Pipeline User vacancies and only one Pipeline User representative on the Panel and therefore the balance of views in Panel discussions issue would still be unresolved.

Also, the general interest levels by Shippers in the governance of the IGT UNC would remain and the quoracy issue would present itself again if the remaining Pipeline User resigned their position. This is something that the current occupant of that role has expressed a desire to do in the near to mid-term future.

2. Appointing external representatives:

An independent representative could be appointed to represent the Pipeline User community on the IGT UNC Panel. The appointment of one representative would alleviate the quoracy issue but there would be no contingency for resignations etc. Therefore, two representatives should perhaps be appointed in consideration of this risk.

The cost of the appointment process and the ongoing cost of the service provided would need to be considered to ensure that those benefitting from the service contributed appropriately.

This solution does not recognise the contribution of parties previously and may result in the withdrawal of interest from parties who are currently engaged.

Code governance would have to be amended to implement this solution, firstly to require this mechanism for resolution of the issue and to allow appointees to become Pipeline User representatives. Funding would also be an additional challenge and it may not be possible to resolve this through Code Governance.

3. Appointing energy trade association representatives:

Trade Association representatives could be advocated, with the Trade Association responsible for selecting and funding the representative. Funding would be the responsibility of the Trade Association members and not the whole shipping community.

Liaison with energy trade associations such as ICoSS, Energy UK and Cornwall Insight (Supplier Forum), to see if they might be willing to appoint a representative to sit on the IGT UNC Panel would be required.

Again, ideally two representatives would be preferable to ensure a more balanced input to meetings as well as to resolve the immediate quoracy issue.

There is nothing in governance at the moment that would require parties to resolve this issue in this way and therefore amendments in governance would be required to force this resolution mechanism and to allow the appointed representatives to take their places on the Panel.

4. Authority Direction:

The code could be amended to require the Authority to appoint a new Panel member(s) to represent the Pipeline User community. This precedent has already been set in other codes although never used.

However, anecdotally, a reluctance to exercise this right has been observed in the absence of a clear and defined rationale that would select a party in a way that would be deemed to be fair and equitable and would stand up to rigorous scrutiny should the decision be challenged.

This option might be possible if the rationale could be identified.

5. Select a Party through prescribed Rationale:

Any rationale for selecting a party to join a Panel should ideally recognise the level of benefit that the party is receiving from that governance and recognise the contribution that they have made to ensuring the integrity of that governance model.

Currently, Panel representatives are elected for a period of 2 years. The Panel meetings usually occur on a monthly basis and approximately last half a day. In addition to this, parties are expected to prepare for the meetings by reading and understanding the relevant papers. This resource and the expenses incurred in fulfilling this role are incurred by the shipper employing the representative.

Consequently, the suggested algorithm below is a function of the party's portfolio size (level of benefit) and the length of service on the Panel (contribution). The party's portfolio size will be obtained as a snapshot in time at the point in which this process is initiated.

1. Nomination based on market share and length of service on the IGT UNC Panel.
2. The Panel member nominated would be determined through a process whereby a weighted percentage in favour of market share over length of service (please see formula below).

(80% x Number of Meter Point Reference Numbers -Market Share-%) + (20% x Length of service-months)

Rank 1 = 0-11 months

Rank 0.5 = 12-23 months

Rank 0 = 24+ months

3. The length of service has been incorporated into this rationale to highlight the effort that some Shippers have made by providing a representative on the IGT UNC Panel. It also signifies the benefits of governance that those Shippers who haven't provided a representative have been receiving.
4. The length of service has been broken down into three different categories. If the Shipper has served between 0 and 11 months (under 1 year) on the IGT UNC Modification Panel they are awarded with a ranking of 1. Similarly, a Shipper, serving between 12 and 23 months (under 2 years) will be awarded with a ranking 0.5 whilst Shippers who have served greater than 24 months (2years or over) will receive a ranking of 0.
5. The highest ranking Shippers will be nominated to provide an IGT UNC Pipeline User Panel representative, dependent on the number of vacancies available.

Worked Examples:

Shipper 1 has market of 35% and has served for 12 months.

Shipper 2 has a market share of 42% and has served for 50 months.

Shipper 3 has market share of 10% and has served for 40 months.

Shipper 4 has market share 10% and has served for 0 months.

	Market Share	Length of Service (Months)	Rank	Factor
Shipper 1	0.35	12	0.5	0.38
Shipper 2	0.42	50	0	0.336
Shipper 3	0.1	40	0	0.08
Shipper 4	0.1	0	1	0.28

It is deemed that the benefit of governance is favourable for Shippers with a larger portfolio. For this reason, a greater weighting has been applied to the market share of the Shipper.

Conclusions:

1. There is not a single option that stands out as an obvious and appropriate solution.
2. There may be other approaches that could be adopted or combinations of approaches.
3. All solutions will require a code modification to implement and the legal drafting of these could be challenging in some cases.
4. Any amendments to governance must also consider how to mitigate against risks such as:
 - incentivising engagement to ensure appointed Panel members are proactively engaged in the process and
 - the consequences of non-adherence with the Code.

Next Steps:

- Panel members are asked to consider the options provided in this review and determine a preferred approach.
- An initial discussion is scheduled for the IGT UNC Panel meeting on 20th September 2019.

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