

Modification proposal:	GTC Pipelines Limited Network Code: "Migration Dates for Non-domestic premise Sites which have an active Ofgem RPC derogation" (GPL046)		
Decision:	The Authority ¹ directs that this modification be made		
Target audience:	Parties to the GTC Pipelines Limited Network Code and other interested parties		
Date of publication:	06 February 2012	Implementation Date:	Next scheduled release, four months following Authority consent or earlier if agreed by the pipeline operator

Background to the modification proposal

Since January 2004, Independent Gas Transporters (iGTs) have been subject to a Relative Price Control (RPC) on their use of network charges.² The RPC requires charges to new domestic and non-domestic customers to be capped at a level broadly consistent with the equivalent charge levied by large Gas Transporters (GTs)³. This provides an incentive for iGTs to operate efficiently and seeks to protect the interests of consumers by ensuring that the cost of providing transportation services to a new customer is accurately reflected in the transportation charges for that site.

Each iGT has a migration date⁴; this represents the latest date by which it must adopt RPC charging arrangements for its legacy sites.⁵ In some cases, iGTs and non-domestic customers directly agree transportation charges. For this reason and under certain conditions⁶, iGTs could be granted a derogation⁷ from the requirement to migrate a non-domestic site to RPC charging arrangements. GTC Pipelines Limited (GPL) was granted a derogation from the requirement to migrate to the RPC for certain of its non-domestic sites. This derogation expires 20 years after the original meter installation date.⁸

If a shipper acquires a non-domestic site on one of GPL's networks, it would not currently have visibility of the RPC migration date for that site. Without this knowledge the shipper would have an incomplete understanding of how the transportation charges for this site will vary over time, as the transportation charges may change significantly once the RPC derogation expires. As contracts between non-domestic customers and suppliers are often negotiated for fixed periods, this lack of visibility has implications in terms of the shipper's ability to enable the customer's contract to reflect its likely charges. This uncertainty may result in shippers increasing charges for these consumers or its

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 As set out in Special Condition 1 of licences granted to iGTs:

http://epr.ofgem.gov.uk/document_fetch.php?documentid=13092

³ On entry into the RPC, iGT charges are broadly consistent with GT charges. After entry, iGT charge changes track GT charge changes but are constrained by a cap and collar mechanism. Where changes are constrained, significant variation between iGT and GT charges may occur.

⁴ As set out in the 'Publication of the dates for migration of iGT legacy properties into RPC' Ofgem open letter: <http://www.ofgem.gov.uk/Networks/GasDistr/IGTReg/Documents1/9089-igtmigrationletter.pdf>

⁵ Legacy sites are those that pre-date the RPC charging arrangements.

⁶ These are set out in paragraph 4.34 of the 'The Regulation of iGT Charging Final Proposals' document: http://www.ofgem.gov.uk/Networks/GasDistr/IGTReg/Documents1/3946-Decisiondoc_IGT_Final_Proposals.pdf

⁷ A derogation is a direction from the Authority relieving a licensee from its obligation to comply with a technical standard or code in its licence.

⁸ Under paragraph 4 of Special Condition 1 of the licences granted to iGTs:

http://epr.ofgem.gov.uk/document_fetch.php?documentid=13092

customers more generally to offset the risk of transportation charges being greater than they had forecast.

The modification proposal

GPL046 was raised by E.ON on 19 August 2011. The modification would place a requirement on GPL to provide the prospective shipper, on request, with the migration date for any non-domestic supply point for which derogation from RPC charging has been granted. The request and response would take the form of an email and GPL would be given two business days to respond once any request had been received.

E.ON considers that the modification would enable a shipper to fully understand the basis of transportation charges applicable to a site it is planning to acquire. It considers that this would lead to more accurate pricing of customer contracts which, in turn, would lead to more cost-reflective offers for customers.

E.ON also considers that the modification would reduce the chance of a shipper raising an invoice query with GPL, as a shipper is unlikely to dispute an invoiced transportation charge if it has a complete understanding of how this charge was formed. It considers that this would lead to more efficient payment arrangements and reduce the associated administration costs for GPL.

iGT UNC Panel recommendation

This modification was considered at the iGT UNC Panel (the Panel) on 21 December 2011. The Panel agreed with the proposer's views and voted unanimously in favour of implementing the modification.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 30 December 2011. The Authority has concluded that:

1. implementation of the modification proposal would better facilitate the achievement of the relevant objectives defined in Standard Condition 9 of the Gas Transporters Licence⁹; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties.

Reasons for Authority's decision

For the reasons stated by the proposer, the Panel considered that the modification proposal would better facilitate Relevant Objectives (d) and (f).

We note that all three respondents to the Draft Modification Report (DMR) considered that the modification proposal would better facilitate Relevant Objective (d), with two of the three respondents indicating that it would also facilitate Relevant Objective (f).

We consider the modification would better facilitate Relevant Objectives (d) and (f) and is neutral in relation to all other Relevant Objectives.

⁹ Gas transporter licence standard conditions http://epr.ofgem.gov.uk/document_fetch.php?documentid=14307

Objective (d): the securing of effective competition between relevant shippers and relevant suppliers

We consider that this modification proposal would provide shippers with greater visibility of transportation charges over the lifetime of a contract as it would enable them to determine when a non-domestic site will migrate to the RPC charging arrangements. Consequently, suppliers could offer contracts to customers with greater certainty on associated transportation charges and, as a result, would be less likely to include a risk premium to account for any potential uncertainty in this area. In addition to having a downward impact on prices, we consider that this increased certainty would increase suppliers' confidence in competing to supply these sites.

For the reasons detailed below, we also consider that this modification proposal would lead to the more efficient payment of transportation charges and the minimisation of costs associated with invoice disputes. This should enable suppliers to compete more effectively as fewer costs would have to be taken into account when offering a contract to a customer.

Objective (f): the promotion of efficiency in the implementation and administration of the network code

We agree that this modification proposal should lead to the more efficient payment and processing of transportation charges. We consider that greater transparency over transportation costs would enable a shipper to better understand the constitution of an invoice received from GPL. This would decrease the likelihood of a shipper disputing an invoice because they are uncertain whether it is correct. As a result, any costs associated with disputes should be reduced for both the shipper and GPL.

Decision notice

In accordance with SLC 9 of the Gas Transporter licence, the Authority directs that modification proposal GPL046: "Migration Dates for Non-domestic premise Sites which have an active Ofgem RPC derogation" be made.

Colin Sausman
Partner, Smarter Markets

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