

Modification proposal:	Independent Gas Transporter (iGT) Uniform Network Code (UNC): AQ Tables (iGT UNC 003V)		
Decision:	The Authority ¹ has decided to reject this proposal		
Target audience:	Gemserv, Parties to the iGT UNC and other interested parties		
Date of publication:	30 November 2007	Implementation Date:	N/A

Background to the modification proposal

Independent Gas Transporters (iGTs) are required to adopt the Annual Quantity (AQ) values set out in the Connected System Exit Point (CSEP) Network Exit Agreement (NExA) AQ Table for the purpose of calculating domestic transportation charges. For connections made since 1 January 2004 these charges will be pegged to within plus or minus a few percent of the equivalent National Grid transportation charge to a supply point at a premise of equivalent type. Further details on the calculation of price caps under this Relative Price Control ("RPC") are available on the Ofgem website².

IGTs are required under the CSEP NExA to undertake a CSEP User AQ Review for both large and small CSEPs. The timescales and processes for compliance are identical to those prescribed in the Uniform Network Code of the large GTs. The process for the AQ Review is also set out in part C1 6 of the iGT UNC and the *AQ procedures document*³.

The modification proposal

The Proposer seeks to replace the 2005 AQ values in the AQ table in Appendix C1-1 of the iGT UNC with the 2006 AQ values. The Proposer considers that the 2006 AQ values are the most up to date values and that implementation of these values will provide reassurance to all parties that ongoing pricing reflects as accurately as possible, the current average consumption levels.

The modification proposal originally sought to update the AQ table held in Section 2 of the iGT UNC Transition Documents with the AQ table produced following the iGT AQ Review process from 2006. However from 1st October 2007, Section 2 of the table was moved from the Transition Document into the iGT UNC. The modification proposal was therefore varied to amend the table in the iGT UNC rather than the Transition Document. At a meeting held on 31 August 2007, the iGT UNC Modification Panel agreed that the variation was material and modification proposal iGT003 was withdrawn and replaced with iGT003V.

The Proposer considers that the modification will better facilitate the Relevant Objectives of the GT Licence by improving transparency and accountability and promoting competition. The Proposer acknowledges that the processes surrounding the CSEP NExA that impact on Shippers may require a fundamental review, but does not consider those issues to be in the scope of this modification proposal.

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 <http://www.ofgem.gov.uk/Networks/GasDistr/IGTReg/Documents1/10068-RPCguidance.pdf>

³ <http://www.igt-unc.com/ewcommon/tools/download.ashx?docId=127>

iGT UNC Panel⁴ recommendation

At its meeting of 17 October 2007 the iGT UNC Panel were unable to reach a majority decision, with three voting members of the panel in favour of the proposal and three opposed. Therefore the proposal was not recommended for implementation.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 24 October 2007. The Authority has considered and taken into account the responses to Gemserv's consultation on the modification proposal which are attached to the FMR⁵.

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the iGT UNC⁶.

Reasons for the Authority's decision

There were 11 responses to the modification proposal, 7 respondents supported the modification proposal and 5 were against.

In general, those respondents who were in favour of the modification proposal considered that the 2006 AQ values were the most up to date and should therefore replace the current 2005 AQ values set out in Appendix C1-1 of the iGT UNC. These respondents noted that analysis of the AQ values is undertaken to ensure that they remain fit for purpose and provide a reasonable estimate of the value of gas consumed in accordance with house type and geographical location. One respondent also noted that the 2006 AQ Review Process was introduced following review of the previous AQ reviews and sought to improve upon the robustness of the process and resulting AQ values.

However, several shipper respondents raised concerns at the process that has been followed in order to arrive at these 2006 figures. They argued that the process has not been transparent and that the level of shipper participation was very low. This, they argue, gives them no certainty that the figures contained within the proposal are accurate. Additional, several respondents commented that a further review of AQ value has more recently been undertaken, though we note that these are not yet part of any proposal.

In general we would support the use of the most up-to-date, but more importantly *accurate* AQ figures available. We consider that the accuracy of such figures will contribute to iGTs being able to levy cost reflective charges, albeit within the confines of the RPC. Ordinarily this would be expected to further facilitate both relevant objectives a) '*the efficient and economic operation of the pipeline*' and d) '*the securing of effective competition between relevant shippers*' of the iGT UNC. However, noting the views of respondents in particular, we do not consider that sufficient assurance has been provided either to shippers or ourselves that the figures contained with this proposal are any more

⁴ The iGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules.

⁵ iGT UNC modification proposals, modification reports and representations can be viewed on the iGT UNC website at <http://www.igt-unc.co.uk/>

⁶ 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

accurate than those currently contained within the iGT UNC. This is not to necessarily say we dispute those figures, we simply have no means of validating them. We are also concerned that these may not in fact be the most up-to-date figures, but note the comments that a further review has more recently been carried out. We consider that the current lack of certainty around both the reliability and longevity of the existing AQ figures may be detrimental and impose additional risks to both shippers and iGTs alike, particularly concerning their forward planning and cost assumptions. We therefore note the ongoing work of the iGT UNC Review group looking into the process around updating AQ tables and look forward to its conclusions.

At this time, we have been unable to conclude that the implementation of this iGT UNC proposal 003 would further facilitate the relevant objectives of that code, and do not direct that it be implemented.



Mark Feather,
Director of Industry Codes and Licensing, Corporate Affairs
Signed on behalf of the Authority and authorised for that purpose.