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value to customers*

ES Pipelines Ltd, ESP Pipelines
Ltd, ESP Networks Ltd, Shippers
and other parties

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19 May 2006

Dear Colleague,

Modification Proposal ESP118, ESPN118 and ESPP118: Introduction of a revised iGT AQ review process.

Ofgem has considered the issues arising from modification proposal 118, raised simultaneously to the Network Codes of ES Pipelines Ltd, ESP Pipelines Ltd and ESP Networks Ltd (hereafter jointly referred to as ESP¹), all of which share common provisions. Ofgem considers that this modification will better facilitate the relevant objectives of the Network Code(s) as defined in standard condition 9 of the Gas Transporters (GT) Licence and, having also had regard to its statutory duties, has therefore decided to direct that this proposal be implemented.

Background

In June 2003 Ofgem approved a modification proposal which introduced an industry agreed AQ Review procedure. This procedure was set out in an ancillary document which was referenced within the majority of the iGT network codes.

This procedural document was developed by iGTs and Shippers in the Gas Forum AQ sub-group. Subsequent changes and refinements to this document have also been agreed within this sub-group, rather than being subject to Network Code governance procedures.

The Modification Proposal

This modification proposal, which was granted urgent status by Ofgem on 22 March 2006, seeks to introduce a revised [iGT AQ Review Process](#) ancillary document, via a reference within the ESP Network Codes. In contrast to previous AQ reviews these procedures will be enduring and so will negate the need to raise modification proposals prior to the start of each AQ review in coming years. In addition, these procedures will become subject to Network Code governance, with any future modifications being dealt with under the Network Code modification procedures, rather than by discussion and agreement within the AQ sub-group.

¹ [ES Pipelines](#) owns ESP Networks, ESP Pipelines.

Respondents' Views

The consultation on this proposal received responses from four shippers, all of whom were supportive of its implementation. A common theme was that the modification would facilitate a more robust, consistent and transparent AQ Review process.

ESP's View

Although ESP has been engaged in the AQ sub-group and fully intends to implement the procedures set out in the proposal, it considers that the proposal would not further facilitate the relevant objectives and therefore should not be implemented. ESP has raised concern at the AQ review process being amended on an enduring basis via an urgent modification proposal, and feels that a fresh, non-urgent proposal would be a more appropriate route.

ESP considers that governing the AQ review process through the modification procedures will cause problems for future revisions, as each iGT currently operates different procedures. Although it is acknowledged that there is now a greater degree of co-ordination across the various networks, ESP feels this cannot be guaranteed and may lead to confusion if the procedures do not remain aligned. ESP therefore feels that the existing arrangements are more robust than those being suggested in this modification proposal.

ESP also feels that it is inappropriate to amend governance arrangements at this time, given the current discussion around the potential for a Uniform Network Code (UNC) to be introduced to the iGT sector. ESP feels that the appropriate place for the AQ review would be in the body of such a UNC rather than in an ancillary document to the existing Code(s).

Ofgem's View

Ofgem supports the implementation of this modification proposal as a means of updating and improving the iGT AQ Review Process. This proposal will allow the existing process to be adopted as an enduring arrangement which will negate the need to raise successive modification proposals for each AQ Review as has been the case in past years. This in itself should reduce the administrative burden upon both ESP and shippers, leading to efficiency gains.

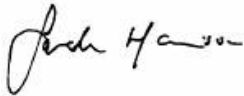
Ofgem understands ESP's concern around the modification procedures and the difficulties of achieving a co-ordinated change control of the AQ review process. However, Ofgem considers that such co-ordination can be better achieved through formal modification procedures than the largely informal and ad hoc discussions of the AQ sub-group. Moreover, making the AQ Review Process subject to network code governance should improve the transparency of the existing arrangements and make them more consistent with the principles of good governance and better regulation.

Ofgem notes ESP's view that this is an inappropriate time to amend the governance procedures, given the discussions around a potential iGT UNC. Ofgem intends to issue a consultation on such an iGT UNC shortly. However, Ofgem must assess each modification proposal on its own merits and determine whether it would better facilitate the relevant objectives than the existing provisions of the Network Code.

For the reasons set out above, Ofgem considers that the implementation of this proposal would better facilitate the relevant objectives of Network Code(s), in particular the efficient and economic operation by the licensee of its pipe-line system(s). Ofgem also agrees with the proposer that the improved accuracy of AQs that should result from these amended procedures will enable more accurate billing and therefore further facilitate competition between gas shippers and gas suppliers.

Should you have queries regarding this decision please contact Samantha McEwen on 020 7901 7032.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sarah Harrison', written in a cursive style.

Sarah Harrison
Managing Director, Corporate Affairs