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Our Ref: Net/Cod/iPGT12
Direct Dial: 020 7901 7032
Email: modifications@ofgem.gov.uk

18 August 2004

ES Pipelines Ltd, Shippers and other parties.

Dear Colleague,

Modification Proposal ESP036: Provisions for AQ Review in the absence of a Review Document.

Ofgem has considered the issues raised by modification proposal ESP036.

Having had regard to the principle objective and statutory duties of the Authority, Ofgem has decided to direct ES Pipelines Ltd (ESP) to implement modification proposal ESP036 because we consider that the proposal will better facilitate the relevant objectives of ESP's network code as defined in standard condition 9 of its' Gas Transporters (GT) Licence.

In this letter we provide some background to the modification proposal and explain the reasons for our decision.

Background to the modification proposal

On 2 June 2003 Ofgem approved modification proposal ESP025. This proposal introduced industry agreed AQ Review procedures via an ancillary document into the ESP network code for the 2003 gas year only. This ancillary document was subject to review following the 2003 AQ Review and was subsequently revised to better reflect the requirements of an efficient AQ review process. Modification proposal ESP034, which was approved by Ofgem on 4 June 2004, added a reference within the network code to this revised document and made clear that it applied to the 2004 AQ Review only.

In the absence of agreement of guidelines for the following gas year the prevailing AQ review procedures which currently reside in section CI of the network code would become operational.

The modification proposal

Prior to the adoption of the procedures outlined in the ancillary document, ESP carried out AQ reviews in accordance with the guidelines in Section CI of the network code. These procedures pre-date the adoption of those in the ancillary document and now require amendment if they are to serve as a replacement if it is not agreed to continue using the ancillary document procedures for the forthcoming AQ review.

This modification proposal specifically seeks to update ESP's network code AQ review procedures in line with Transco modification proposal 531 (approved by Ofgem on 18/07/02) and 624 (approved by Ofgem on 11/04/03). This entails the lifting of restrictions previously in place for processing AQ appeals and changing the process for provisional AQ amendments to better protect shippers with Small Supply Meter Point portfolios against the negative aspects of the annual AQ review process.

If approved, AQ appeals will be acceptable all year, excluding the period 1 August to 14 September, to allow for the Supply Point Register to be updated. In addition, the Small Supply Point appeals threshold will be altered to a 20% deviation rather than 1000kWh.

Respondents views

One response was received regarding this modification proposal which expressed full support for implementation.

Ofgems views

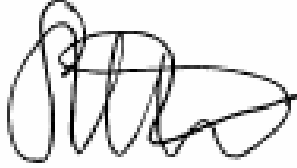
Ofgem considers that this modification proposal will improve ESP's existing network code AQ review procedures. If it is not agreed to continue using the ancillary document procedures as a means of carrying out an AQ review, then the amended network code procedures will provide adequate arrangements to complete an AQ review in an efficient and economic manner.

Ofgems decision

Ofgem has decided, for the reasons outlined above, to direct ESP to implement this modification proposal because it will better facilitate the achievement of the relevant objectives as outlined under standard condition 9 of the GT licence and is consistent with the principle objective and statutory duties of the Authority.

If you have any queries please contact Roger Morgan on 020 7901 7346 or Samantha McEwen on 020 7901 7032.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. McEwen', with a stylized, cursive script.

Samantha McEwen
Manager, Modifications