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9 September 2004

Utility Grid Installations Ltd, Shippers and other parties

Dear Colleague,

Modification Proposal UGI007: AQ Review 2004.

Following careful consideration of the issues raised by modification proposal UGI007 we have decided to not direct Utility Grid Installations Ltd (UGI) to implement this modification. This letter explains the background to the modification proposal and the reasons for our decision.

Background

Annual Quantities (AQs) are used by Transco to, amongst other things, forecast the demand for gas across its network. AQ values for properties on IGT networks are selected from standard AQ values which vary depending on the size of and location of properties. These standard values are set out in Transco's Network Exit Agreement (NExA). IGTs provide aggregate AQ values to Transco for each shipper on the networks and Transco uses these to calculate transportation charges to the Connected System Exit Point.

The Gas Forum's IGT/Shipper Workgroup spent a considerable amount of time developing rules and procedures to enable IGTs to undertake a larger and smaller supply point AQ review in 2003. Following the 2003 AQ review the Workgroup has reviewed and refined the AQ procedures in readiness for IGTs to carry out an AQ review in 2004.

Modification Proposal

This modification proposal seeks to include a reference within the UGI Network Code to the revised AQ document and to ensure that Shippers conform to such procedures for the 2004 IGT AQ Review only.

Views of Respondents

UGI received four responses to this modification proposal. All respondents expressed their support for the modification. In particular, one respondent stated that it was important that the work of the IGT AQ sub group be completed properly and resulted in the adoption of the proposed AQ Review procedures within an appropriate governance framework.

Ofgem's Views

This modification proposal was raised by ScottishPower Gas Ltd on 2 June 2004. The deadline for submissions to this consultation was set for 18 June 2004.

The document outlining the AQ review process for 2004 provides a number of deadlines by which certain stages of the process must be completed. The timetable provided has a start date of 21 May 2004 and an end date of 31 October 2004.

Given the dates outlined in the process document and the fact that this modification proposal was not raised until June 2004, it can be assumed that much, if not all of the proposal has become obsolete.

To mitigate against this situation arising in the future, Ofgem would recommend that UGI or one of its Users considers amending the UGI Network Code to refer to a non-date specific AQ document. This would negate the need to raise a network code modification proposal or consent every time an AQ review takes place.

Notwithstanding these concerns, Ofgem supports this modification proposal as a means of updating and improving the existing IGT AQ Review process. Ofgem believes that undertaking an AQ review in 2004 should improve the accuracy of energy allocation amongst shippers who are active on UGI's networks which furthers its relevant objective of 'operating an economic and efficient pipe-line system.'

Ofgem's decision

For reasons set out above, Ofgem has directed UGI not to implement this modification. If you wish to discuss any aspect of this decision please do not hesitate to contact Samantha McEwen on 020 7901 7032 or Roger Morgan on 020 7901 7346.

Yours sincerely

Nick Simpson
Director, Modifications

