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04 June 2004

ES Pipelines Ltd, Shippers and other parties.

Dear Colleague,

Modification Proposal ESP034: 2004 AQ Review.

Following careful consideration of the issues raised by modification proposal 034 we have decided to direct ES Pipelines Ltd (ESP) 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 these 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 ESP 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

ESP received four responses to this modification proposal all of which expressed support for the modification proposal.

However, two of these four did express concerns regarding some aspects of the proposal. In particular, the absence of an appeals process, specifically that meter reads after 14 May will not be considered, the timeframe within which suppliers can challenge AQs and the tolerance currently in place for threshold crossers were areas that the respondent felt would need further discussion prior to the 2005 AQ Review. The same two respondents also expressed concern over the potentially annual nature of this modification proposal and would like to see steps taken to incorporate these procedures into the Network Code on a permanent basis.

ESP's Views

ESP recommends the implementation of this modification proposal as it recognises the importance of accurate AQs in the calculation of transportation charges.

Ofgem's Views

We note the concerns raised by the respondent and recommend that the IGT Workgroup should consider for future AQ reviews whether it is appropriate to review the issues raised by the respondent as detailed above. Also, Ofgem recommends that ESP should consider amending their code to refer to a non date specific AQ document which would negate the need to raise a network code modification or consent to modify 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 ESP'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 ESP to implement this modification. If you wish to discuss any aspect of this decision please do not hesitate to contact me on 020 7901 7032 or Roger Morgan on 020 7901 7346.

Yours sincerely



Samantha McEwen
Modifications Manager

