

Modification proposal:	East Surrey Pipelines Connection Ltd (ESPC) Network Code041: Independent Gas Transporters (iGT) obligations in respect of data provision to Large Gas Transporters – Shrinkage.		
Decision:	The Authority¹ directs that this modification be made²		
Target audience:	ESPC, Parties to the ESPC Network Code and other interested parties		
Date of publication:	09 November 2006	Implementation Date:	To be confirmed by ESPC

Background to the modification proposal

Under the bilateral Connected System Exit Point (CSEP) Network Exit Agreement (NExA), iGT's are required to provide on an annual basis timely estimates of shrinkage values to large transporters³. These values are used to procure extra gas to cover the shortfall due to shrinkage. Any errors in the estimates are reconciled through the Reconciliation by Difference (Rbd) process.

There do not seem to be any material risks associated for non compliance of these obligations for either of the contracting parties. Lack of timely provision of shrinkage estimates may however result in risk and concern for CSEP Users such as misallocation of energy volumes and therefore incorrect Rbd.

The modification proposal

These proposals would clarify the requirement for iGT's to provide shrinkage estimates by 1 August each gas year to large transporters

The proposer considers these proposals will increase transparency and accountability and promote effective competition.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) received on 9 October 2006. The Authority has considered and taken into account the responses to the ESPC consultation on the modification proposal which are attached to the FMR. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the ESPC Network Code⁴; and,
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁵.

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.

²This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ large transporters include Transco plc, Scotia Scotland, UU/CKI, Macquarie Wales & West and Scotia South of England

⁴ As set out in Standard Condition 9(1) of the Gas Transporters Licence, see:

http://62.173.69.60/document_fetch.php?documentid=4311

Reasons for the Authority's decision

The majority of respondents were in favour of approval of this modification, considering that it would increase transparency, accuracy and consistency of the arrangements, thereby promoting competition. ESPC however considered the proposal should not be approved for a number of reasons and was supported in its view by one of the respondents. Firstly, the transporter considered that the ESPC Network Code already provides to a sufficient degree the obligations that are requested to be codified by this proposal. Secondly, the transporter considered codifying these obligations would mean that one obligation exists in two separate industry documents and to the extent that the obligations do not coincide then transporter will be in breach of one of these documents. Thirdly, the transporter considered that placing these obligations in the code would not incentivise non compliant NExA parties any more so than they were currently incentivised under the NExA. The supporting respondent added that the more appropriate place for these obligations may not be the Network Codes but rather the Supply Point Administration Agreement (SPAA).

We consider that to the extent that suggested amendments have been put forward to the current baseline, greater clarity has been added to the respective Network Codes which will further enhance transparency.

We would encourage all interested parties to take responsible action as soon as possible to facilitate the appropriate changes in relevant bilateral agreements. This would negate the risk of one obligation existing in two places and would constitute good governance across all codes and agreements.

Ofgem has also recently approved UNC modification 083⁶ which has placed corresponding obligations on large transporters within the UNC, to process the data received from iGT's in an equally timely fashion. Ofgem considers these modifications, together with UNC modification 083 will give oversight of the complete process to all interested parties. This should provide greater incentives for compliance. Increased compliance should lead to a more accurate reflection of costs and charges incurred by all relevant participants in the market which should facilitate competition. Ofgem considers these enhancement to better facilitate relevant objectives (a) and (c). The increased transparency and promotion of competition is also in accordance with Ofgem's Principal statutory duty to protect the interests of consumers, wherever appropriate by promoting competition.

In relation to whether these obligations may be more appropriate to be placed in the SPAA, the respondent should consider if they wish to raise an appropriate change proposal under the SPAA governance arrangements for this issue to be considered more fully.

Decision notice

⁵The Authority's statutory duties are wider than the relevant objectives and are detailed mainly in the Gas Act 1986.

⁶ [UNC modification 083: 'Proposal to insert obligations to process data received from iGTs in line with the requirements as outlined within Annex A of the Connected System Exit Point \(CSEP\) Network Exit Agreement \(NExA\)'](#).

In accordance with Standard Condition 9 the Gas Transporters Licence, the Authority, hereby directs that modification proposal ESPC041: Independent Gas Transporters (iGT) obligations in respect of data provision to Large Gas Transporters – Shrinkage' be made.

A handwritten signature in black ink, appearing to read 'N. Simpson', written over a horizontal line.

Nick Simpson

Director, Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose.