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| Modification proposal: | <b>GPL029, UGI021, GTC330:<br/>Independent Gas Transporters (iGT) obligations in respect of data provision to Large Gas Transporters – Shrinkage.</b> |                      |   |
| Decision:              | <b>The Authority<sup>1</sup> directs that each of these modifications be made<sup>2</sup></b>   |                      |   |
| Target audience:       | <b>GPL, UGI, GTC, Parties to the GPL, UGI, GTC Network Code and other interested parties</b>  |                      |   |
| Date of publication:   | <b>04 December 2006</b>   | Implementation Date: | <b>To be confirmed by GPL, UGI, GTC</b> |

## 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 transporters<sup>3</sup>. 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 November 2006. The Authority has considered and taken into account the responses to the GPL, UGI and GTC consultation on the modification proposal. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the GPL, UGI and GTC Network Codes<sup>4</sup>; and,
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>5</sup>.

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

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

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

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

[http://62.173.69.60/document\\_fetch.php?documentid=4311](http://62.173.69.60/document_fetch.php?documentid=4311)

## Reasons for the Authority's decision

All of the respondents were in favour of approval of this modification, considering that it would increase transparency, accuracy and consistency of the arrangements, thereby promoting competition. GPL, UGI and GTC however considered the proposal should not be approved for a number of reasons. Firstly, the transporter considered that the GPL, UGI and GTC Network Codes already provide 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.

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. We do not consider amendment of the NExA to be a pre requisite to implementation of these proposals and we expect to see these proposals implemented in a timely manner.

Ofgem has also recently approved UNC modification 083<sup>6</sup> 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.

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

<sup>6</sup> [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 \(NExA\)'](#).

## **Decision notice**

In accordance with Standard Condition 9 the Gas Transporters Licence, the Authority, hereby directs that modification proposals GPL029, UGI021 and GTC330: Independent Gas Transporters (iGT) obligations in respect of data provision to Large Gas Transporters – Shrinkage are 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.**