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| Modification proposal: | IPL/QPL020: Independent Gas Transporters (iGT) obligations in respect of data provision to Large Gas Transporters – Shrinkage. | | |
| Decision: | The Authority¹ directs that each of these modifications be made² | | |
| Target audience: | IPL, QPL, Parties to the IPL, QPL Network Code and other interested parties | | |
| Date of publication: | 04 December 2006 | Implementation Date: | To be confirmed by IPL, QPL |

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 3 November 2006. The Authority has considered and taken into account the responses to the IPL, QPL 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 IPL, QPL Network Codes⁴; 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.

² This 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

These proposals deal with data flows between the iGT's and large transporters, in particular the timescales within which the data should be provided. The obligations to provide this data currently sit in the bi-lateral CSEP NExA agreement between the relevant iGT and large transporter. The large transporter utilises the data to calculate amongst other things transportation charges, accurate reconciliation values for the Rbd process and AQ values. All of these calculations have impacts beyond the two parties contracted to the CSEP NExA agreement, particularly upon the shipper community. Untimely provision of the required data impacts shipper charges and costs.

All 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. IPL/QPL stated that they were not inherently against the proposals but considered that a better resolution to these issues might be provided under other initiatives currently ongoing within the iGT sector.

We consider that if administered appropriately, the governance arrangements provided for under the network code provide adequate processes to evaluate issues such as those raised by these modification proposals.

We consider that placing these obligations within the network code, so that oversight of them is gained by the shipper community, who are most impacted by non observance of them to be in facilitation of relevant objective (c).

We note that the transporter has raised a concern about the *transfer* of sections between various agreements and a review of the current NExA. We do not consider it to be an absolute necessity that the NExA agreement needs to be amended prior to implementation of these proposals and we would expect to see implementation of these proposals along appropriate timescales. We would however encourage increased participation and cooperation between iGT's and large transporters such that all agreements are amended in a timely fashion, constituting 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.

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 \(NExA\)'](#).

Decision notice

In accordance with Standard Condition 9 the Gas Transporters Licence, the Authority, hereby directs that modification proposals IPL020 and QPL020: 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.