

Modification proposal:	ESP127, ESPC051, ESPN127, ESPP127, GPL041, GTC342, GUC022, IPL031, QPL031, SSEP025 and UGI033: Revision of the IGT AQ Review Process		
Decision:	The Authority ¹ decided to reject this proposal		
Target audience:	ESP/ESPP/ESPN, Parties to the ESP/ESPP/ESPN/ESPC Network Code and other interested parties		
Date of publication:	27 April 2007	Implementation Date:	Not applicable

Background to the modification proposal

The procedures outlining the IGT AQ Review Process have, since 2003, been contained in a Network Code ancillary document entitled 'IGT AQ Review Process'.

This document has been reviewed and amended annually by members of the Gas Forum AQ sub-group, with appropriate modification proposals being raised to affect the amendments agreed by Gas Forum members. Since 2003 Ofgem has approved modification proposals² to amend these procedures as the proposed changes were considered to improve the procedures in use at the time.

The modification proposal

Centrica raised modification proposals ESP127, ESPC051, ESPN127, ESPP127, GPL041, GTC342, GUC022, IPL031, QPL031, SSEP025 and UGI033 simultaneously to the Network Codes of the following independent Gas Transporters (iGTs):

- East Surrey Pipelines Limited;
- ESP Connections Limited;
- ESP Networks Limited;
- ESP Pipelines Limited;
- GTC Pipelines Limited;
- The Gas Transportation Company Limited;
- Energetics Gas Limited (formerly known as Global Utility Connections Limited);
- Independent Pipelines Limited;
- Quadrant Pipelines Limited;
- SSE Pipelines Limited;
- Utility Grid Installations Limited.

The proposal seeks to introduce a revised AQ Review process in time for the beginning of the 2007 AQ Review on 12 May 2007. On this basis, on 14 February 2007 we agreed to the Proposer's request that these proposals follow an urgent timetable.

Each of these proposals seek to give contractual affect, through modification of the relevant iGTs Network Codes, to changes to a single document; the "*iGT AQ Review Process*". As these proposals have also been progressed in parallel and share common responses, we have considered it appropriate to also deal with them together.

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 For instance ESP025, ESP034 and ESP118

The Authority's decision

The Authority has considered the issues raised by these modification proposals and the Final Modification Reports (FMRs) dated 21 March 2007³. The Authority has considered and taken into account the responses to the consultations on these modification proposals which are attached to the FMRs.

The Authority has concluded that implementation of the modification proposals will not better facilitate the achievement of the relevant objectives of the relevant iGTs Network Codes⁴.

Reasons for the Authority's decision

Ofgem supports the principle of modification proposals which seek to improve the procedures used to carry out the annual AQ Review for IGTs, where such improvements better facilitate the relevant objectives of the Network Code. However, we do not consider that these modification proposals achieve this. Whilst we consider that there are elements of these proposals which have merit, we do not consider that on balance and taken as a whole, they would better facilitate the relevant objectives of the iGTs Network Codes than the current procedures.

Our views on these proposals and our reasons for rejection are set out in this section of the decision letter.

Timing

Ofgem granted urgent status to these modification proposals based on the urgency criteria that we use to reach such decisions. In this case, we considered that the proposal should be granted urgency as it was linked to a specific time-related event, namely the commencement of the iGT AQ Review process in May 2007.

Several of the iGTs and one shipper stated that the timing of these proposals may not allow for the necessary system changes to be made. In particular, there is concern that the time between an Authority direction and the beginning of the AQ Review process would put such changes at risk.

We note that some of the proposed system changes have been given mandatory status. This differs from previous proposals to amend the AQ Review Process, in that they have previously been relatively minor changes, many of which involved processes which were optional. As such, it would suggest that this proposal is more substantive than previous proposals on this subject and so may have benefited from a longer consultation period. Given this, we consider that adequate time to fully consider the nature of the changes and their potential impact on systems should have been factored into the timetable for this modification proposal.

As the AQ Review operates to the same timetable each year, it appears that parties have had ample time and notice to raise these modification proposals under non-urgent procedures. It is therefore disappointing that these modification proposals were not raised well in advance of the beginning of the AQ Review process. This would have

³ Some of the FMRs were received after this date

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

allowed the proposals to progress under a non-urgent timescale and so give more time for discussion and consideration of the issues involved. As things stand, and given the absence of a robust and binding implementation date, we consider that to direct the implementation of these proposals would require parties to make rushed and potentially inefficient system changes. Equally some parties may use their current degree of discretion to implement the proposals at a later stage and fragment what is currently a common set of arrangements.

Relationship with xoserve

This modification proposal also requires xoserve to carry out certain functions in relation to the iGT AQ Review. It should be noted, however, that xoserve have not responded to this consultation and so other than anecdotal evidence, there appears to be no guarantee that these functions will be carried out effectively or consistently. Until such an agreement is in place, perhaps via a Memorandum of Understanding, we have no certainty that the arrangements set out in the revised document are acceptable to xoserve, or more particularly the large GTs who fund it.

Weather correction data

Subject to confirmation from xoserve and the funding GTs, we would support the additional release of weather correction data and calorific values for the period 13 May (i.e. the start of the iGT AQ Review process) to 31 July. We agree with those respondents who commented that this information should facilitate a greater number of AQs being correctly challenged by shippers, therefore creating a more accurate portfolio and more accurate billing. We do not consider that the rejection of these proposals should preclude this information from being provided, nor preclude it from being codified by some future modification if that is considered appropriate.

Shipper participation

Some shippers have suggested that the current low level of shipper participation in the iGT AQ Review is evidence that the process is of such a low profile that many shippers are unaware of it. It is also proposed that this could be improved by amending the current procedures and encouraging greater iGT involvement in the xoserve AQ Forums. However, the responding shippers have not provided any evidence on why they believe the overall low level of shipper participation could be resolved in this way.

Nonetheless, we recognise that this is an important issue and one which could impact the effectiveness of the AQ Review Process. We therefore intend to contact shippers directly to ascertain the reasons for this low participation and to gain a wider understanding of the issues that have led to the current situation.

Read frequency

Some shippers' responses suggest that these proposals will align the iGT procedures with those in the UNC and therefore will help to improve competition between shippers, but do not specify how. We also note the comments of the iGTs that in some respects these proposals seek to deviate from the UNC. In particular, we understand that the intent of the proposals is to allow reads taken less than 6 months apart to derive the AQ. We share the concerns of those respondents who suggest that this could lead to a misleading AQ calculation, as the narrower time period could correspond with a relative peak or lull in consumption.

Customer reads

Part of the proposal is to consider customer reads as being valid actual reads for the purposes of the AQ review. The GT has expressed concern over the volume and accuracy of meter reads submitted by shippers for the purposes of the AQ Review. However, they also argue that the acceptance of customer reads as valid could reduce the integrity of the data used to calculate AQs. Shippers largely oppose this view and believe that the inclusion of customer reads could contribute to more accuracy in AQ calculations, and so, more reflective invoices.

We consider that the use of customer reads in the AQ Review Process is a positive step, and would be in line with the situation on other networks, as provided for under the UNC. In particular, in August 2001 we decided to direct the implementation of Network Code modification 470⁵, which removed the distinction between customer and shipper/supplier meter readings in line with metering liberalisation. Our decision on this modification was based on the idea that increasing the range and quantity of consumption information available to industry would contribute to the economic and efficient operation of the system and therefore further the relevant objectives of the Network Code. Without fettering the discretion of the Authority, it is likely that we would hold a similar view with respect to the iGT AQ Review Process.

Tolerances

These proposals seek to introduce tolerances into the AQ Review process, for instance clarifying that if the revised AQ value would be 500% or more than the current value, it will be dismissed and the current AQ value carried forward, unless successfully challenged by the shipper. This would provide a degree of validation over the process and ensure shippers take a greater degree of responsibility for providing evidence for those revisions. Current AQ values would also be carried forward, unless successfully challenged by the shipper, for supply points where there has been a change of meter.

We generally support efforts to validate the data entering into the AQ review process. However, we note there is no supporting rationale behind the 500% threshold mentioned above. Whilst any figure may be, to an extent, arbitrary we would welcome further analysis on what other figure were considered and the relative merits of each.

We are aware of the concerns of some iGTs regarding the submission of manifestly incorrect meter readings for the purposes of the IGT AQ Review Process. This is an issue which has been highlighted by at least one iGT recently who has expressed concerns over the potential impact on CSEP volumes. The key concern appears to be that where manifestly inaccurate reads are submitted, there is a risk of CSEPs exceeding their maximum volume, with the result that no further connections are available at those particular connection points. If this is the case, we would encourage both iGTs and shippers to investigate such cases and take the necessary steps to determine the correct AQ.

We would expect shippers to take proactive steps to validate any meter reads which are clearly inaccurate. If indeed the prevalence of manifestly inaccurate AQ values is hampering the effective operation of the shippers are also reminded of their obligations under [standard condition 3](#) of their Shipper Licence, in particular:

⁵ Modification Proposal 470: 'Meter Reading Unbundling – Non Daily Read Meters. (decision date 20/08/01).

1. The licensee shall act in a reasonable and prudent manner in the use of a relevant transporter's pipe-line system for the purpose of the conveyance of gas.
2. Without prejudice to the generality of paragraph 1, the licensee shall not knowingly or recklessly pursue any course of conduct (either alone or with some other person) which is likely to prejudice –
 - a. the safe and efficient operation, from day to day, by a relevant transporter of its pipe-line system;
 - b. the safe, economic, and efficient balancing by that transporter of its system; or
 - c. the due functioning of the arrangements provided for in its Network Code.
3. The licensee shall not knowingly or recklessly act in a manner likely to give a false impression to a relevant transporter as to the amount of gas to be delivered to by the licensee on a particular day to that transporter's pipe-line system or as to the amount of gas to be comprised in its offtakes therefrom on that day.

Conclusion

Considering the points outlined above, it is Ofgem's view that approval of the proposed amendments to the IGT AQ Review process would not better facilitate the achievement of relevant objectives (a), (b) or (c). However this does not preclude the IGTs and Shippers working together to agree revised procedures to promote efficiency gains to the industry and ultimately provide a benefit to consumers. We would encourage both shippers and IGTs to discuss this issue with xoserve and the large GTs and work together to produce a more robust, efficient and economic process for carrying out the IGT AQ Review.



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Signed on behalf of the Authority and authorised for that purpose