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| Modification proposal: | **Uniform Network Code (UNC) 183: Provision of Data in respect of downstream networks by the iGT directly connected to the distribution network (UNC183)** | | |
| Decision: | The Authority[1] has decided to reject this proposal | | |
| Target audience: | The Joint Office, Parties to the UNC and other interested parties | | |
| Date of publication: | 31 March 2008 | Implementation Date: | N/A |

## Background to the modification proposal

The Connected System Exit point network exit agreement ("CSEP NExA") governs the arrangements where an independent gas transporter ("iGT") connects to a gas distribution network ("GDN"). Annex A of the CSEP NExA sets out amongst other things, the obligations for the iGT to provide shipper related data to the GDN so that it may calculate and levy transportation and consumption charges to the Users on the iGT network.

Over recent years the number of iGT networks has increased rapidly and current estimates put them at over 18,000 in number. New network configurations have also emerged where an iGT does not connect to the host GDN but connects to another iGT. There are a number of arrangements where the iGTs connect to each other in a "daisy-chain" formation of varying lengths. Current estimates suggest that there are over 250 of such arrangements. These are known as "nested CSEP" arrangements.

The original terms of the CSEP NExA did not envisage these "nested CSEP" arrangements. As such, there are no formal governance arrangements in place for nested CSEP shipper data to be provided to the host GDN. It has been suggested by the industry that this lack of data has resulted in the mismatch between information held by the GDN and information held by the IGTs and consequently impacts on the settlement arrangements relating to gas consumption. Shippers have indicated that this mismatch of data has, in part, led to the misallocation of charges via the Reconciliation by Difference (RbD) process.

The modification seeks to amend Annex A of the CSEP NExA to oblige the lead iGT i.e. the iGT directly connected to the GDN to provide relevant shipper data in respect of any nested arrangements connected to its network or connected to any network downstream of that network.

## The modification proposal

This modification proposal seeks to oblige the lead iGT to be responsible for the transfer of relevant information to the GDN in relation to shippers active on nested CSEPs connected to its network.

For the purposes of Annex A the data will include but, not exclusively:

- A minimum of weekly updates in relation to LMN[2] activity,

[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] LMN: Logical Meter Number represents the collective AQ values of Small Supply Points (SSPs) by shipper.

- Annual requests for LMN AQ updates as a consequence of the Annual AQ Review,
- Provision of periodic reconciliation volumes for the purposes of reconciliation at relevant large supply points.

The proposal details the mechanism by which the data should be attained. The proposer suggests that all Small Supply Points (SSPs) registered to a User on all the nested networks and the lead iGT network should be represented as one LMN. The current arrangement of one LMN representing one large supply point (LSP) would continue. As such, the requirement of additional LMNs that represent LSPs on the nested network would be requested by the lead iGT.

The proposer acknowledges that the lead iGT will need to have in place agreed terms and conditions for the receipt of offtake information from the nested CSEPs especially in relation to the timing in light of the lead iGT having to consolidate the data submission to the GDN.

## UNC Panel[3] recommendation

At the UNC modification Panel meeting held on 21 February 2008 of the 10 voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this modification proposal. Therefore the Panel recommended implementation of the proposal.

## The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 February 2008. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR[4].

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC[5].

## Reasons for the Authority's decision

This proposal seeks to address the concern that data relating to gas consumption on nested networks is rarely (if at all) being reported to the host GDN. For settlement purposes the host GDN needs to know the volume of gas consumption within its network so that the appropriate transportation and commodity charges can be levied on the Users. Therefore the terms of Annex A of the CSEP NExA obligate the iGT connected to the GDN to provide relevant shipper data relating to Users on their network to the host GDN. However, the terms of Annex A, in their current form do not obligate the lead iGT to provide shipper information from networks connected to its network or downstream of that network (i.e. nested CSEPs). As a result the shipper data held by the host GDN may differ from that held by the lead iGT and any downstream iGTs.

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[3] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[4] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com
[5] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

Shippers have argued that this inconsistency makes it difficult for them to reconcile the charges levied via the CSEP invoices issued by xoserve (on behalf of the GDNs) and the transportation invoices issued by the iGT. Further the shippers believe that this inconsistency could lead to inappropriate apportionment of charges (or credit) via the RbD settlement process.

Ofgem notes that ten (10) responses were received to the consultation of this proposal. Of these, four respondents supported the proposal, four gave qualified support and two did not support the proposal.

The four respondents that supported the proposal believed the provision of the nested network shipper data would assist the host GDN to undertake better management of their network as this data will provide a more accurate picture of gas demand and offtake leading to more efficient operation of the network. Further they believe that the provision of this data will help to qualify the accuracy of transportation charges that are levied via the RbD process.

The four respondents that provided qualified support agreed with the proposal in principle believing that a process should be in place for the host GDN to acquire this information but perceived a number of problems with the mechanism outlined in the proposal.

The proposed amendment to the CSEP NExA will only obligate the lead iGT to provide the nested shipper data to the GDN. Therefore to ensure that the lead iGT has acquired the necessary information there must be arrangements and agreements in place that ensure the nested networks pass on that information upstream in a timely manner. To make the proposal workable these arrangements must be established as the downstream nested network owner is not bound by the UNC. Further, it will be the lead iGT that will be in breach of the NExA if the information is not forthcoming. One of these four respondents felt that assurances needed to be in place so that the lead iGT could not be held in breach if, through no fault of their own they were not able to obtain the relevant information.

Ofgem agrees that there should be a data transfer mechanism which places the administrative burden and the associated costs on the appropriate parties and that this mechanism should be underpinned by suitable governance arrangements.
Ofgem believes that the proposal in its current form does not fully accommodate the requirements as stated above particularly as the additional costs and administrative burden is almost entirely borne by the iGTs and in particular the lead iGT.

Ofgem agrees with those respondents that indicated that the proposal is limited in that it does not fully explore any alternative mechanism for the provision of data from nested iGTs and that it dismisses the idea that the nested iGTs communicate directly with xoserve. The proposer suggested that although the direct communication route would reduce the timeframe for receipt of information, this route would not be appropriate because it would require contractual arrangements between the GDN and the nested iGT. It was also stated that this process would potentially remove the lead iGT from the information flow and that the GDN would not be aware of any physical limitation the lead iGT may have imposed on the offtake of the nested iGT.

Ofgem does not agree that these are valid reasons not to explore this proposed solution further. There does not necessarily need to be a direct connection between the nested iGT and the GDN to underpin any contractual arrangements for data transfer. Nor is the lead iGT excluded from the data flow as there is a licence requirement for all transporters

to keep a register of all connections to its network and that all connections comply with the relevant gas safety and installation regulations. Therefore, like the GDNs the iGTs must be in receipt of the appropriate data i.e. offtake data to fulfil these obligations.

Recently Ofgem introduced the concept of User Pays which allows xoserve to directly charge for particular services. An alternative option possibly would be for xoserve enter into a contractual arrangement with the iGTs so data is transferred directly without having to be assessed and validated by the lead iGT.

The proposal acknowledges that for this proposal to be effective then the lead iGT and the nested iGTs must agree terms for data transfer. In particular arrangements must be agreed so that data is transferred in a matter such that the lead iGT is not in breach of the terms of the NExA.

Ofgem notes that some work has been undertaken by the iGTs to develop a "connected system agreement" which could accommodate arrangements for data transfer between iGTs. Alternatively the iGT UNC could be a more appropriate governance structure to facilitate the iGT-iGT communication arrangements.

Notwithstanding Ofgem's support of the intent of the modification, we do not believe that it will better facilitate the relevant objectives of the UNC. In particular, given that there is a risk that lead iGTs will not be able to obtain the relevant information from downstream IGTs, Ofgem does not consider that the proposal would improve information exchange or better facilitate the securing of effective competition between shippers and between suppliers through improved allocation processes.

Further, Ofgem also considers that the proposal places a disproportionate administrative and cost burden onto the lead iGT with a significant risk that information flows will not improve and in circumstances where the downstream nested iGTs do not make a contribution to these costs. In this respect, Ofgem is concerned that the proposal would not better facilitate efficiencies in the administration of the UNC.

Ofgem also believes that there is sufficient scope for alternative arrangements to be explored and therefore would encourage the industry to collaborate effectively to bring about an efficient, robust and cost reflective solution.

**Mark Feather**
**Director, Industry Codes and Licensing**

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