

Modification proposal:	<b>Independent Gas Transporter (iGT) Uniform Network Code (UNC): 'AQ Review Process - Requirement for iGTs to operate an AQ Review Process in line with that followed under the UNC' (iGT UNC 005)</b>		
Decision:	The Authority <sup>1</sup> rejected this proposal		
Target audience:	Gemserv, Parties to the iGT UNC and other interested parties		
Date of publication:	31 March 2009	Implementation Date:	Not applicable

## Background to the modification proposal

Under the terms on the Connected System Exit Point (CSEP) Network Exit Agreement (NEXA) the iGTs are required to undertake a review of Annual Quantity (AQ) values, which are then used for the purpose of calculating transportation charges to Small Supply Points on their networks. For connections made since 1 January 2004 these charges will be pegged to within plus or minus a few percent of the equivalent National Grid transportation charge to a supply point at a premise of equivalent type. Further details on the calculation of price caps under this Relative Price Control ("RPC") are available on the Ofgem website<sup>2</sup>.

The timescales and processes for compliance are consistent with those prescribed in the Uniform Network Code of the large GTs. The process for the AQ Review is also set out in part C1 6 of the iGT UNC and the *AQ procedures document*<sup>3</sup>.

## The modification proposal

The modification seeks to require iGTs to undertake the AQ review process in line with that operated under the rules set out within the Uniform Network Code of the large GTs. The Proposer contends that this will encourage shipper participation within the review process and allow those shippers to manage the review within their existing mainstream systems.

## iGT UNC Panel<sup>4</sup> recommendation

At its meeting of 19 December 2007 the iGT UNC Panel were unable to reach a majority view and therefore did not recommend that this proposal be implemented.

## Reasons for the Authority's decision

Unfortunately, owing to the absence of details within the FMR we have been unable to conclude whether this proposal would better facilitate the relevant objectives of the iGT UNC or not, and therefore have no option but to reject this proposal.

We note that in coming to a recommendation, the Pipeline Operators on the panel considered that the proposal was insufficiently defined to identify the impact to IT systems and business processes. However the shipper representatives were at that time

<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> <http://www.ofgem.gov.uk/Networks/GasDistr/IGTReg/Documents1/10068-RPCguidance.pdf>

<sup>3</sup> <http://www.igt-unc.com/ewcommon/tools/download.ashx?docId=127>

<sup>4</sup> The iGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules.

in support of the proposal and did not consider it required further development. This is despite the report stating that:

*"As the proposal does not give details of the new process it is not possible for implementation issues to be assessed".*

As there was insufficient information in the Final Modification Report submitted to us to make a decision we subsequently informed the iGT UNC Panel that we would require legal text or robust business rules in order to understand the implications of this proposal. When this information was not forthcoming we wrote to the Panel chairman on 14 May 2008, again asking that legal text or business rules be provided. This letter was subsequently discussed at the Panel meeting of 21 May 2008. The minutes record that:

*"The Panel noted Ofgem's proposal but considered that a more pragmatic way forward would be for the Authority to reject this Modification allowing the Proposer to raise a more fully developed change".*

It is extremely disappointing that the Panel allowed a proposal which was recognised as not being fully assessed to proceed to the point of recommendation, let alone submission to the Authority for a decision. However, we consider that this is in part owing to the construct of the modification rules. In the absence of agreement on how the proposal should proceed, the rules are geared towards issuing the proposal to consultation rather than development. The rules<sup>5</sup> currently state that if the iGT UNC Modification Panel does not make a determination pursuant to Clause 15.5 in respect of a Modification Proposal, it shall be deemed to have made a determination pursuant to Clause 15.5(d) to defer the matter to the next meeting. If at the subsequent meeting the Panel is still unable to make a determination, the iGT UNC Operators will refer the Modification Proposal to Consultation as referred to in Clause 15.5(c). We understand that this is what happened in relation to iGT UNC 005.

We understand that this rule was originally intended to prevent filibustering and ensure proposals progressed. However, it also gave potential for a proposal to proceed beyond the development stage even where it is in manifest need of further development. We recognise that iGT UNC 005 was raised at a time when the iGT UNC arrangements were still bedding in, though we have concern that the prevailing rules do not mitigate this situation happening again, and would therefore encourage iGT UNC parties to review whether they remain appropriate in the light of lessons learnt.

However, there appears to be no practical way in which we can address the deficiencies in the current modification report and we therefore consider the most appropriate course is to reject this proposal, whilst noting this is based on the absence of information on which to fully assess the merits of the proposal and in no way prejudices any future modification proposal that may be raised in this area.

**Mark Feather,**  
**Director of Industry Codes and Licensing, Corporate Affairs**  
Signed on behalf of the Authority and authorised for that purpose.

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<sup>5</sup> iGT UNC Section L 15.8