

Modification proposal:	<p>Uniform Network Code (UNC): Proposal to amend Annex A of the CSEP NExA by replacing the current version of the AQ Table (UNC328), and</p> <p>Independent Gas Transporter UNC (iGT UNC): Amendment to AQ values present within the CSEP NExA Table to take account of revised Seasonal Normal Data (iGTUNC031V)</p>		
Decision:	The Authority ¹ has decided to reject these proposals		
Target audience:	The Joint Office, Gemserv, Parties to the UNC, iGT UNC and other interested parties		
Date of publication:	9 March 2011	Implementation Date:	N/A

Background to the modification proposal

Independent Gas Transporters (iGTs) are required to adopt the Annual Quantity (AQ) values set out in the Connected System Exit Point (CSEP) Network Exit Agreement (NExA) AQ Table for the purpose of calculating domestic transportation charges. 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 website².

Any new domestic premises on an iGT network will be allocated an AQ from the NExA AQ table based on the property's type and location³. The values set out in the NExA AQ Table, which are used as the basis for transportation charges on iGT network and for the initial energy allocation and transportation charges up to the CSEP, have not been revised since 2005.

Provisions of the CSEP NExA, which are entirely between the GDN and the iGT, can be made on a bi-lateral basis⁴. However, changes to the provisions which are relevant to shippers are precluded by Section J 6.4 'Amendment of Network Exit Provisions' of the UNC, unless they have been approved by all shippers who use that connected system, or where the modifications rules (under either the GDN's or iGT's Network Code) have been followed.

The modification proposals

UNC328 and iGTUNC031V seek to revise the AQ Table contained within the CSEP NExA and replicated in both the UNC at Section G, Annex 3 and the iGT UNC at Section C1, Annex 1. This would revise downward the NExA AQ values for the stated property types, taking into account recent Seasonal Normal Demand (SND) data.

The Proposer considers that this would reflect more accurate AQ values and provide reassurance to all parties that charges for the new connections, to which the revised AQ

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

³ Property types range from one bedroom to 6 bedroom properties. Locations are split in South, Average, and North.

⁴ An iGT is referred to in the context of the UNC as the Connected System Operator.

values would have effect, reflect the current average consumption levels as accurately as possible. Any sites connected prior to the implementation of these modification proposals would be unaffected by it.

The Proposer considers that the modifications will better facilitate the Relevant Objectives of both codes, in particular the promotion of effective competition by improving the accuracy of energy and cost allocation to shippers. The Proposer acknowledges that the processes surrounding quality of AOs in the CSEP NExA, which impact on Shippers, may require a fundamental review, but does not consider those issues to be in the scope of these modification proposals.

The UNC and iGT UNC Panels⁵ recommendations

The UNC Panel meeting of 21 October 2010 voted unanimously to recommend the implementation of UNC328.

At its meeting of 19 January 2011 the iGT UNC Panel were unable to reach a majority decision, with three voting members of the panel in favour of the proposal and three opposed. Therefore the proposal was not recommended for implementation.

Unlike the UNC Panel, the iGT UNC Panel is required to determine of a date for the implementation of the modification, either by endorsement of the Proposer's recommended implementation date, or in accordance with Clause L 18.6 of the iGT UNC. This Clause requires panel members to agree unanimously upon a date; otherwise the default will be the sixth release date from the time of the Authority's decision. We understand that no recommended implementation date has yet been agreed.

The Authority's decision

The Authority has considered the issues raised by modification proposals UNC328 and iGT UNC031V in the Final Modification Reports (FMRs) dated 20 January 2011 and 26 January 2011 respectively. The Authority has considered and taken into account the consultation responses provided alongside the FMRs⁶.

The Authority has concluded that the implementation of one or both of these modification proposals will not better facilitate the achievement of the relevant objectives of either code⁷.

Reasons for the Authority's decision

None of the six respondents to the UNC consultation objected to the implementation of UNC328, though two raised concerns in their comments on the proposal.

Of the seven responses to the iGT031V consultation, four were in favour of its implementation and two were opposed. One respondent offered qualified support. These

⁵ The iGT UNC Panel and the UNC Panel are established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules and the UNC Modification Rules respectively.

⁶ iGT UNC modification proposals, modification reports and representations can be viewed on the iGT UNC website at <http://www.igt-unc.co.uk/>

⁷ iGT UNC relevant objectives are set out in Standard Condition 9 of the Gas Transporters Licence, whereas the UNC relevant objectives are set out in Standard Special Condition A11(1), available on the Ofgem website at: <http://epr.ofgem.gov.uk>

responses were split along shipper/iGT lines. The iGT UNC Panel recommendation was reflective of these responses.

In general, those respondents who were in favour of the modification proposal considered that the proposed AQ values were more accurate and should therefore replace the current 2005 AQ values set out in Annexes of the UNC and iGT UNC. Those opposed raised concerns over the seemingly retrospective nature of the proposal, which referred to the revised SND value being applied from 1 October 2010.

While the proposer has subsequently confirmed that it was not their intent for the figures to have retrospective effect, neither the FMR for UNC328 nor iGT-UNC031V clearly address this issue. Whereas comments made at the UNC Panel suggest that UNC328 could be given immediate effect, some members of the iGT UNC Panel consider that at least 6 months notice would be required. Another iGT UNC Panel member suggested that it could only support implementation as of the start of a gas year. Were a further proposal to be raised on this issue we would welcome clarity on how it should be implemented including any transitional arrangements for sites that have been commissioned from the iGT but are yet to be laid.

We are disappointed that the iGT UNC Panel has not yet made a determination on the appropriate implementation date for iGTUNC031 in accordance with Section L 18.6. While the CSEP NExA could be revised upon implementation of either proposal, we consider that this should be a co-ordinated approach, with implementation being the first practicable date. We can also confirm that no approach has been made to Ofgem to revise the AQ Table set out in the RPC guidelines. There is therefore a further risk of uncertainty, with various conflicting documents each setting out what appear to be the prevailing AQ Values for charging purposes. We consider that this risk could be managed, but should be addressed prior to any modification being given effect. If we were minded to approve a future mod, then we would also expect to update the RPC guidance.

In principal we would support a revision of AQ figures that increases their accuracy, particularly given it is several years since the figures were last reviewed. We consider that the accuracy of such figures will contribute to iGTs being able to levy cost reflective charges. Ordinarily this would be expected to further facilitate both relevant objectives a) *'the efficient and economic operation of the pipeline'* and d) *'the securing of effective competition between relevant shippers'*. However, noting the views of respondents, we do not consider that sufficient assurance has been provided over the methodology and accuracy of the proposed figures to warrant replacing those currently contained within the CSEP NExA. The FMR does not set out how the correction factors are calculated, what data are used, and there is also no justification as to why it is appropriate just to correct for seasonal normal factors without undertaking a full review of the calculation. This is not necessarily to say we dispute those figures; simply that we have not been provided with sufficient means of validating them and understanding the broader context of the modification. In this context, we are concerned about the ability of potential respondents to the consultations to assess properly the justification and impact of the proposal.

We note the ongoing work under iGTUNC030 to review the values currently set out in the CSEP NExA AQ Table and look forward to seeing its conclusions. We consider that it will be for the proposer, or any other party, to decide whether this proposal should be raised again now, with additional information, or whether these concerns should be included within scope of iGTUNC030.

At this time, we have been unable to conclude that a revision to the CSEP NExA, as effected through the implementation of either UNC328 or iGTUNC031V would further facilitate the relevant objectives of those codes and therefore do not direct that either be implemented.

Emma Kelso,
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Signed on behalf of the Authority and authorised for that purpose.