

Modification proposal:	iGT UNC: Tolerance for SSP Sites (iGT049)		
Decision:	The Authority ¹ directs that this proposal be made. ²		
Target audience:	Independent Gas Transporters (iGTs), Parties to the iGT UNC and other interested parties		
Date of publication:	2 April 2013	Implementation Date:	To be confirmed by the iGT UNC Secretary

Background to the modification proposal

The Annual Quantity ('AQ') is the quantity of gas off-taken or estimated to be off-taken at a supply meter point during a period of one year. AQs are used in a number of gas industry processes, including billing of energy and transportation charges.

The independent Gas Transporters ('iGTs') Uniform Network Code ('UNC') requires iGTs and Shippers to engage every year in a process for reviewing AQs at supply meter points. Under this AQ review process, each year iGTs will provide Shippers with a provisional AQ for the supply meter points in their portfolios, and Shippers will then have a period – the AQ review amendment period – to review the AQ values before they become effective for the next gas year.

In the past there have been concerns that Shippers may be able to submit amendments during the AQ review in a way that would bring them undue benefits in terms of energy balancing and transportation charges. This led to the development and subsequent implementation of Transco Network Code Modification 0624 (NCM624)³ in 2003, which imposed a plus or minus 20% tolerance to AQ revisions, ie a Shipper-submitted AQ revision would be rejected unless it would increase or reduce the AQ value by more than 20%. This modification was implemented in April 2004.

Inaccurate AQs can lead to the misallocation of costs to other Shippers operating in the Smaller Supply Point (SSP) sector in particular. Under the Reconciliation by Difference ('RbD') process, any gas which has not previously been attributed to individual meter reconciliation (mainly in the Daily Metered sector) or other fixed values such as shrinkage is allocated across all SSP sites based upon their AQ.

On 15 April 2011 the Authority directed the implementation of UNC292⁴, which had the effect of reducing the AQ revision tolerance in the UNC from +/-20% to +/-5%. UNC292 came into effect for the 2012 AQ review process.

The modification proposal

The proposal seeks to bring the iGT UNC into line with current practice under the UNC by narrowing the SSP AQ tolerance from 20% to 5%. The proposer considers that this will improve the accuracy of AQs held by iGTs.

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 Modification 0624 "Changes to the 2003 Annual Quantity (AQ) Amendment Process" was implemented on 12 April 2004. More information available at <http://www.gasgovernance.co.uk/NCMP>.

⁴ UNC292: 'Proposed change to the AQ Review Amendment Tolerance for SSP sites'

The proposer considers that the implementation of this proposal will allow iGTs to improve the planning of the pipeline network. They also consider that the proposal will better facilitate competition between Shippers by improving the accuracy of allocation of energy and transportation costs.

iGT UNC Panel⁵ recommendation

This modification was considered at the iGT UNC Panel on 20 February 2013. The Panel voted unanimously in favour of implementing the modification.

The Authority's decision

The Authority has considered the issues raised by the modification proposal, the responses to the industry consultation and the Final Modification Report⁶ (FMR) dated 22 February 2013. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the iGT UNC; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

We consider that iGT UNC049 would better facilitate Relevant Objectives a), c) and particularly d) of the iGT UNC and is neutral in relation to the other Relevant Objectives. Our reasons are set out below.

Relevant Objective (a): the efficient and economic operation of the pipeline system to which the licence relates

The iGT UNC Panel considered that this proposal would be of benefit to current and future pipeline management activities, helping the iGTs in reviewing pipeline capacity.

We agree with those respondents who suggested that the improved accuracy of AQs could enable iGTs to improve their processes for development and planning of their pipeline networks. However, we also note that the AQ is one of many factors that must be taken into consideration in such planning. We therefore consider that the modification may only marginally further relevant objective (a).

Relevant Objective (b): the coordinated, efficient and economic operation of the pipeline system of one or more other relevant gas transporters

The iGT UNC Panel considered that as with relevant objective (a), more accurate AQ information would assist wider planning by gas transporters, though it noted that this was just one factor of capacity planning and other factors had an impact.

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

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 The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

We consider that this objective primarily relates to inter-network activities. We do not consider that an argument has been made as to how this proposal would benefit such activities. We therefore consider this proposal to be neutral in respect of relevant objective (b).

Relevant Objective (c): the efficient discharge of the licensee's obligations under its licence

We note that whilst the iGT UNC Panel consider that this relevant objective would be further facilitated, no reference was given to a specific licence condition. The FMR suggests that this objective would be facilitated as the proposal would allow the iGTs to operate in a "non-discriminatory fashion due to the fact that customers on GT networks would be subject to the same rules as customers on iGT networks". We consider that this may be a reference to any of Standard Licence Conditions ('SLCs') 4⁸, 4A⁹, 4B¹⁰ or 4D¹¹, which each refer to the licensee avoiding any undue preference or discrimination.

Whilst we recognise that any disparity between the iGT UNC and the UNC may require Shippers to administer sites on those networks differently, no argument has been made as to how this may be discriminatory behaviour by the iGT.

However, we do consider these licence conditions to be relevant to this proposal. More accurate AQs will improve the allocation of energy and transportation charges. We consider that this would further facilitate the ability of an iGT to discharge its licence obligations to operate and in particular set out a charging methodology that is reflective of its transportation costs¹². We therefore consider that this proposal will better facilitate relevant objective (c).

Relevant Objective (d): securing of effective competition between relevant Shippers and between relevant suppliers

As stated above, we consider that the modification is likely to facilitate improvements in the accuracy of AQs; this should have a beneficial impact on competition. Where AQs are more reflective of individual consumption, allocation of energy and transportation charges will be more cost reflective and accurate. Shippers will therefore have better information on which to base their pricing, volume and investment decisions.

We note the iGT UNC Panel discussions regarding the opportunity to misuse the AQ amendment process, which led to the current tolerance being imposed by NCM624. As commented in those discussions, this risk exists under the narrower tolerance, though the gains will be more limited. NCM624 was intended to be an interim solution to reduce the risk of gaming, pending more effective means of ensuring the AQ review process is not abused. There is now more effective reporting on AQ activity, in particular through the introduction of the 'UNC081' report¹³. The increased transparency of AQ reporting in part led to our acceptance of UNC292, though we consider that further improvements could be made.

⁸ SLC4: Charging of Gas Shippers - General

⁹ SLC4A: Obligations as Regards Charging Methodology

¹⁰ SLC4B: Connection Charging Methodology

¹¹ SLC4D: Conduct of Transportation Business

¹² SLC 4A(5), 4B(5), and 4C(5)

¹³ Introduced following the implementation of UNC081: 'AQ Review Process – Publication of Information'.

Whilst the UNC081 report does not cover the iGTs, the iGT UNC Panel noted that other reports are available. These comments were repeated at the subsequent iGT Shipper working group¹⁴, which suggested that the 'AQ by Shipper by LDZ' report may be most useful.

Whilst we remain concerned at the potential for abuse of the AQ review process, we consider that on balance these concerns are outweighed by the benefits arising from improved AQ accuracy. We further consider that there are better ways to negate this risk than maintaining the existing +/-20% dead band. We will monitor the iGT reports on AQ activity and in due course give further consideration to whether they provide the appropriate degree of transparency. We also welcome the recent formation of a Performance Assurance workgroup. Whilst this group currently operates under the auspices of the UNC, we anticipate that any output of that group will also be considered in the context of iGT networks.

We further considered whether the iGTs had anticipated and would be able to cope with an increased level of AQ review activity. We noted that the 2012 AQ review conducted by Xoserve on behalf of the UNC GTs had resulted in a fourfold increase in AQ revisions¹⁵. Whilst the FMR was silent on this point, we note that in subsequent discussions at the iGT Shippers workgroup confirmed that no iGT had so far raised any concerns at the likely increased workload and that they were adopting a wait and see approach.

Alignment with the UNC arrangements is not of itself an objective of the iGT UNC. However, we further consider that applying a common tolerance for AQ revisions, irrespective of the network to which the supply point is connected, will enable Shippers to realise efficiencies in their back office functions, which should in turn reduce costs.

Given the above, we consider that the implementation of iGT UNC 049 would, on balance, better facilitate relevant objective (d).

Decision notice

In accordance with Standard Condition 9 of the Gas Transporters Licence, the Authority hereby directs that the modification proposal iGT UNC049: 'Tolerance for SSP sites' be made.

Neil Barnes

Associate Partner, Retail Markets & Research

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

¹⁴ See: <http://www.igt-unc.co.uk/Standing+Work+Group+Meetings/2013+Meetings/March>

¹⁵ See: <http://www.xoserve.com/index.php/our-services/aq-review/aq-review-2012/>