

To : Transco, Shippers & other interested parties

Direct Dial : 020 7901 7346

Our Ref : AQ 2001\_1

23 May 2001

**RE : Modification Proposal 0454 “Amendment to the Small Supply Point (SSP) Annual Quantities (AQ) Process.”**

Ofgem has decided to consent to modification proposal 0454. In this letter, we set out the reasons for making this decision. In addition, annex A which accompanies this letter outlines a number of Ofgem expectations concerning the submission of shipper driven domestic AQ amendments during the AQ 2001 process.

**Background**

Following the completion of AQ 2000, Transco formed a sub group of its AQ workstream to discuss shipper requirements in readiness for AQ 2001. The sub group focused on evaluating whether the network code required change to prevent shippers from submitting high volumes of low value domestic AQ amendments. Such amendment activity was a feature of Transco’s 2000 domestic AQ process. Some shippers suggested that a repetition of such amendment activity during AQ 2001 could disadvantage their positions because Transco’s Reconciliation By Difference (RbD) charges are driven by AQs.

**Modification Proposal**

Following sub group discussions Transco raised modification 0454 which seeks to amend the network code in the following ways :

- Amendments to SSP provisional AQ values to be limited to those, which alter Transco’s provisional values by more than 1,000 kWh (the tolerance).
- The tolerance will not apply in instances where meter points are re-classified as industrial and commercial (I&C) supply points.

- Instances of amendments received by Transco which are outside the prescribed tolerance will be rejected by Transco.

## Views of Respondents

Shippers generally supported modification 0454. However, the following specific points were raised. These are set out, with a discussion, and a conclusion below.

- Shippers consider the application of a tolerance level as an appropriate measure to mitigate against high volume/low value amendment submission, which in turn reduces shipper risks concerning the allocation of gas charges amongst domestic gas shippers.

The industry has spent considerable time debating shipper amendment submissions. A number of shippers point to the fact that the AQ process incentivises shippers to reduce Transco's derived AQs. The introduction of the tolerance level will require shippers to think carefully about their amendment submission. If the tolerance level had been introduced as a feature of AQ 2000 close to 25% of all domestic AQ amendments would have been rejected by Transco's systems.

- One respondent suggests that this modification does not fully address the abilities of unbundled shippers to selectively submit reads during the amendments phase of the domestic AQ process.

During Transco's AQ 2000 workstream discussions, some shippers considered Transco's AQ derivation process to be unduly complex and subject to interpretation. This modification is one step towards prescribing the governance of the submission of shipper driven amendments. If further measures are required which specifically govern the treatment of unbundled reads and their use in the AQ process then it is open to Transco and the industry to make proposals to alleviate any such concerns.

- One respondent expresses support for the imposition of an absolute tolerance level as opposed to a percentage tolerance level.

During Transco's AQ sub-group meetings shippers discussed the imposition of a domestic AQ tolerance level. Consideration was given to

whether a percentage value or absolute tolerance level should be applied. For example, a 25% tolerance level would affect two AQs in the following ways : for an AQ of 10,000 kWh there would be a bar on amendments of less than 2,500 kWh change; whereas for an AQ of 71,000 kWh the equivalent figure would be 17,750kWh. This could mean that a shipper with a portfolio of AQs close to the domestic threshold (73,200 kWh) may not be in a position to submit valid amendments, whereas, a shipper with a portfolio of sites with lower AQ values might be able to submit large volumes of amendments which would reduce AQs by small amounts. An absolute threshold, on the other hand, limits the number of minor amendments that can be made to the same extent across the full range of AQs.

### **Ofgem's Decision**

Taking into account the arguments set out above, Ofgem has decided to approve modification 0454.

Ofgem wishes shippers to consider carefully the approach they adopt to the 2001 domestic AQ review. Specifically, Ofgem has set out some guidance (see appendix A) on the nature of and process for submitting amendments which Ofgem requests shippers to take into account.

Should you require further information regarding this subject, please contact Roger Morgan (020 7901 7346).

Yours sincerely

**Nick Fincham**  
**Director, Supply**