



Urgent Modification Proposal 0234 Decision

Recovery of SMP Costs due to the AQ97 Review Process

11 March 1999

Present Position

Under its Network Code, Transco has an obligation to undertake an annual review of the annual quantity (AQ) of gas consumed at each supply point. This review, known as the AQ review process, enables Transco to collect data that it uses to estimate the demand for gas, for each supply point on a daily basis, for the forthcoming gas year. Review Group 0121 was convened to develop an AQ review process for 1997. This resulted in the implementation of Modification 0136, which introduced arrangements for the 1997 AQ review process. The changes that were made to the AQ review process for 1997 were largely transitional, applying only to the 1997/98 gas year.

The 1997 AQ review process revised some AQs to materially erroneous values. In many instances the incorrect AQs were inflated. Due to the number of AQs requiring investigation and correction, some erroneous AQs were not corrected until 6 March 1998. As a result, shippers may have been required to put in more gas than they should have, had the AQs been correct. Therefore, shippers will be exposed to the System Marginal Price (SMP). However, shippers will be reconciled at System Average Price (SAP), therefore, shippers would incur a loss.

Proposal

The proposer raised the Modification Proposal in April 1998 in response to their exposure to SMP charges arising during the AQ97 process, in particular the costs incurred over 16 and 17 December 1997. During this period, SMP was approximately £5/therm. This modification proposes to compensate shippers for the costs incurred arising from the exposure to SMP due to the AQ97 review process. The proposal seeks to recover the costs from Transco.

Possible Impact on Customers

Any change in shipper costs may ultimately be passed onto customers, however changes will only affect industrial and commercial customers.

Ofgas' Decision

Ofgas rejected this modification on 23 February 1999. The rejection of this modification is based on evidence provided by Transco that failed to show that Quantum, Vector and Bell were under deemed on 16 and 17 December 1997, as a higher percentage of their appeals had been put through by 16 December relative to other shippers. They were therefore, not unduly affected by inaccurate AQs. The analysis also showed that no other shippers were unduly affected by SMP exposure.

Further Information

The Transco contact is Paul Rogers on (0121) 623 2393
The Ofgas contact is Tahir Majid on (0171) 932 1669

99/02/24/02



23 February 1999

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Dear Mr Rogers

Final modification report 0234: Recovery of SMP costs due to AQ 97 review process

I am writing further to your final modification report received in Ofgas on 19 February 1999. Subsequent to that report you have also provided further analysis to Ofgas.

Modification 234 was raised by Quantum in response to a perceived overstatement in their deemed energy position for 16 and 17 December 1997. Transco has shown that Quantum's deemed energy position on those days was in fact understated, even on the basis of all AQ appeals being reconciled. That is, even when a corrected portfolio is used, Quantum were being asked to deliver less gas than they should have. By choosing to deliver less than their allocation, Quantum were under delivering significantly.

Ofgas therefore accepts Transco's recommendation that the modification should not be made. A signed page to that effect is attached.

Please circulate this letter.

A handwritten signature in black ink, appearing to be "SD", with a long horizontal line extending to the right.

Shaun Day
Economic Adviser
Head of Transportation Pricing