



6 May 1999

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Direct Dial : 0171 932 1633

Our Ref : BG8_99

Your Ref :

Mr Tim Davis
Manager, Network Code
Transco
31 Homer Road
Solihull
West Midlands
B91 3LT

Dear Mr Davis

Final Modification reports 317 'Smaller Supply Point (Domestic) AQ Review for Gas Year 1999/2000 ' and 318 'Domestic AQ Review'.

I refer to the final reports for the above modifications. A number of meetings have taken place to discuss the requirements and scope of the 1999/2000 domestic AQ review process. The industry agreed to undertake a reduced 1999/2000 domestic AQ review to correct a small number of site categories for the following reasons. First, shippers have suggested that Transco's sites and meters databases contain insufficient post competition meters reads to calculate AQs. Second, shippers have expressed reservations concerning the use of pre-competition read data to revise AQs, (the majority of which is held by Transco and BGT) shippers suggest that the use of such data to revise AQs may result in gross AQ errors.

Therefore, Transco submitted modification 0317 which proposes that the industry undertake a limited domestic AQ review for gas year 1999/2000 allowing shippers to amend default AQ values and process AQs of sites crossing the 73,200 kWh threshold. British Gas Trading submitted modification 0318 which suggests that the 1999/2000 domestic AQ review should be limited to the amendment of vacant sites and default AQ values only.

Modification 317

The final report for modification 317 includes a representation submitted by Southern Electric which suggests that Transco should undertake a review of the effects of RbD on shippers intimating that a limited AQ review may effect the accuracy of the RbD process. The representation states concern about the "accuracy of the RbD process because of the potential for AQs to include systematic bias and perverse incentives on shippers to appeal AQs."

Transco address the representation by suggesting that it is undertaking risk modelling work in this area, which is to be reported through the RbD subgroup of the Invoicing and Adjustment Workstream.

Ofgas understands that the RbD workstream is also monitoring RbD via auditing, monthly performance reporting and verification exercises. If any of these exercises address the concerns expressed by Southern Electric then it would be appropriate for Transco to report the findings to the AQ review sub-group of the SPA Metering workstream.

Ofgas Decision

After careful consideration Ofgas consents to modification 317. We have rejected modification 318 for the following reasons.

- The industry does not support this modification and has not yet reached consensus on how to arrive at a solution for the treatment of vacant sites.
- We recognise the importance of the vacant site issue raised by BGT. However, Ofgas is concerned that there is little incentive for shippers to amend the AQs of sites previously vacant but now occupied and consuming gas. For example, an unbundled shipper may fail to inform Transco of when a site becomes occupied, therefore, benefiting from a low gas use attribution.

Ofgas is concerned that little progress has been made for ensuring that vacant sites are charged appropriately by Transco. We suggest that the industry should determine if a longer-term solution is required for vacant sites and how such a mechanism would work. In the meantime, Ofgas believes that the prudent option available to shippers is to isolate and withdraw from long term vacant sites.

Please do not hesitate to contact me should you require further assistance.

Regards

A handwritten signature in black ink, appearing to read 'RM', followed by a long horizontal flourish.

Roger Morgan
Supply Point Administration