



13 May 1999

Direct Dial : 0171 932 1633

Our Ref : BG9\_99

Your Ref :

Mr Tim Davis  
Manager, Network Code  
31 Homer Road  
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West Midlands  
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Dear Mr Davis

**Final Modification Report No : 320 'Termination of Non Domestic AQ and EUC Review.'**

I refer to the final report for the above modification. Although we sympathise and understand why this modification was proposed by the Gas Light and Coke Company, we feel that it is inappropriate to postpone this years I&C review without an alternative in place.

It has been identified that previous industrial and commercial AQ reviews have re-calculated AQs to erroneous values. As a result some shippers were exposed to inappropriate balancing and transportation charges, as well as unforeseen administration costs.

As a result of the 1998 process some sites were allocated inaccurate EUCs or peak daily load profiles - an event which also seems to have occurred in the previous year but which was undetected at the time. Shippers and Transco have undertaken an exercise to correct the EUC's of affected sites; but preliminary reporting from Transco suggests that a number of sites have not been appealed by shippers. Ofgas is disappointed and concerned that inaction by shippers will populate Transco's sites and meters database with inaccurate data that currently can only be rectified if subject to transfer and appealed as new business. Ofgas is awaiting the findings of Transco's final analysis and will be contacting shippers who have not completed appeals in due course.

**Modification Report 320**

A number of representations have been submitted with Transco's final report:

- BGT state that 'Transco, are required, via their price control, to provide accurate AQs. If Transco cannot achieve this objective then the debate should focus upon appropriate incentives and financial liabilities if there is a failure.'
- Eastern express reservations concerning the withdrawal of the stand alone AQ calculator stating 'one main area of concern in respect of the process as defined for this year, and that is the withdrawal of the stand alone AQ calculator.'

Both points have not been addressed by Transco in it's final report. Ofgas suggests that Transco address these concerns to the community as soon as possible.

In reply to Easterns point we suggest that Transco explain the reasoning behind the withdrawal of the AQ calculator as this may be an area of concern for other shippers.

### **Ofgas Decision**

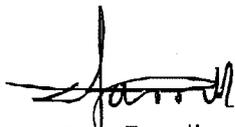
After careful consideration Ofgas has decided to reject the implementation of this modification for the following reasons.

- The industry does not support this modification. The majority of representations state unequivocal opposition to the implementation of this modification.
- Shippers will not be allowed to correct AQ errors, thereby, populating Transco's sites and meters databases with inaccurate data.
- Static AQs could effect the accuracy of NDM forecasting, which could result in increased costs to the community via transportation charges, reconciliation, administration and exposure to SMP/SAP which would ultimately be passed onto customers.
- Risks to RbD shippers. The robustness of industrial and commercial AQs is crucial to the accuracy<sup>of</sup> and shippers confidence in the RbD process.
- A postponed AQ review process will affect shippers abilities to forecast future demand which will influence shippers forward gas purchasing decisions.
- Shippers may incur additional storage costs to meet unpredictability of demand.
- Static AQs will affect the success of industry initiatives such as customer access to data. For example, a customer challenges an incorrect AQ value via the supplier/shipper route, but, the shipper would be powerless to change it, resulting in the customer incurring inappropriate transportation charges and possibly being unable to change supplier.

Ofgas understands that the industry will be meeting in the future to discuss an overhaul of the existing I&C AQ review process. We welcome such an initiative and expect the industry to include customer participation at such meetings.

Please do not hesitate to contact me if you wish to discuss further.

Yours sincerely



Dave Farrell

**Head of Industrial and Commercial Issues**