

Modification proposal:	Uniform Network Code (UNC): Proposal to amend Annex A of the CSEP NExA table, by replacing the current version of the AQ table (UNC392), and		
	Independent Gas Transporter UNC (iGT UNC): Amendment to AQ Values present within the CSEP NExA Table (iGTUNC040V)		
Decision:	The Authority ¹ directs that these proposals be made ²		
Target audience:	The Joint Office, Gemserv, Parties to the UNC, iGT UNC and other interested parties		
Date of publication:	20 January 2012	Implementation Date:	To be confirmed by the Joint Office and the iGT UNC Panel

Background to the modification proposal

Independent Gas Transporters (iGTs) are required to adopt the Annual Quantity (AQ) values set out in the Connected System Exit Point (CSEP)³ Network Exit Agreement (NExA)⁴ table (the AQ Table), for the purposes of calculating domestic transportation charges. Properties connected since 1 January 2004 are subject to a relative price control (RPC). Under the RPC, iGT transportation charges are broadly linked to the equivalent Gas Transporter transportation charge to a supply point at a premise of an equivalent type⁵.

The AQ values set out in the AQ Table represent an estimate of the annual quantity of gas consumed in accordance with the property type and geographical location⁶. Any new domestic premises on an iGT network will be allocated an AQ from the AQ Table. This AQ is used to calculate transportation charges in respect of the iGT network, and the initial energy allocation and transportation charges in respect of the Distribution Network (DN). The AQ Table is published in both the Uniform Network Code (UNC) and in the iGT UNC and is periodically revised. The AQ Table was last amended following the approval of modification UNC075 in July 2006.

On 9 March 2011, Ofgem rejected modifications UNC328 and iGTUNC031V to amend the CSEP NExA AQ Table within the UNC and iGT UNC. This decision was based mainly on the lack of clarity of the proposed methodology. We discuss this later in the letter.

The modification proposal

UNC392 and corresponding modification iGTUNC040 were raised by Scottish Power (the Proposer). They propose to revise the AQ Table contained within the CSEP NExA, which is replicated in both UNC CSEP NExA, Annex A, Part 8 and iGT UNC Section CI, Appendix 1, respectively. These modifications propose to apply the methodology developed by the iGT030RP Review Group, which would result in revising downward the AQ Table values for the stated property types. This revision would take into account Seasonal Normal

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ An iGT is referred to in the context of the UNC as the Connected System Operator.

⁴ The NExA sets out the technical and operational conditions for the connection point. The NExA is agreed between a large Gas Transporter and an iGT and/or Shipper.

⁵ Further information on the calculation of price caps under the RPC is available on the Ofgem website, <http://www.ofgem.gov.uk/Networks/GasDistr/IGTReg/Documents1/10068-RPCguidance.pdf>

⁶ Property types range from one bedroom to six bedroom properties. Locations are split into South, Average, and North.

Demand (SND) data⁷. It would also consider reduced consumer demand resulting from climate change and energy efficiency measures taken by consumers.

The Proposer considers that revision of the AQ Table would reflect more accurate AQ values. This would provide reassurance to all parties that charges for new connections, to which the revised AQ values would have effect, reflect the current average consumption levels as accurately as possible. Any sites connected prior to the implementation of these modification proposals would be unaffected by it.

Review of the AQ table methodology

As noted above, iGT UNC Review Group iGT030RP developed the methodology to review the AQ Table used to calculate the proposed AQ values. This workgroup used iGT AQ Review⁸ data to determine revised AQ values.

The methodology specified the AQ data that could be used in the revision of the AQ Table. This included:

- Only properties deemed to be new when first connected to a gas connection
- AQ values calculated as part of the most recently completed AQ Review using meter reads
- Only property types that are listed in the AQ Table, iGT UNC Section CI, Appendix 1.

The methodology also considered a number of exclusions⁹. Using this methodology, iGTs individually collated the AQ data from the 2010 AQ Review, which was used to calculate the revised AQ values proposed by the modifications. The iGTs and Shippers that formed the iGT030RP workgroup recommended that the current AQ Table should be replaced with the revised version.

Relative Price Control impacts

The iGT030RP workgroup reviewed the impacts of changing the AQ Table values on iGT transportation charging under the RPC methodology. The workgroup noted that changes in AQ values in the AQ Table would not impact on already contracted connections. However there may be an impact on the transportation charges for new sites contracted after the change is implemented.

During the development of the modification, Ofgem invited iGTs to submit their assessment on the impact of the proposed modifications in their annual RPC revenues. The responses we received indicate that the proposed reduction in the AQ values may lead to a 15% to 20% drop in iGTs' revenue, from transportation charges, in respect of connections contracted after the change is implemented. When taking into account revenues from new and existing connections, this is expected to represent a reduction of up to 7% in their total revenue from transportation charges which reflects lower transportation charges, and hence costs. We note also that the majority of respondents to the iGTUNC040V consultation considered that this modification would have minimal impact on Shippers' costs.

⁷ SND represents the demand estimated for a day with average weather, and is produced by the UNC Demand Estimation Sub-Committee.

⁸ The AQ Review is an annual process to review the AQ for all sites on the iGT and large Gas Transporter networks.

⁹ Further details on the methodology can be found at <http://www.igt-unc.co.uk/Modifications/Review+Proposals+Pre+2011/Closed+Review+Proposals/iGT030RP>

UNC and iGT UNC Panel¹⁰ recommendations

The UNC Panel meeting of 15 December 2011 voted unanimously in favour of modification proposal UNC392 being implemented.

At its meeting of 21 December 2011, the iGT UNC Panel reached a majority decision in favour of modification proposal iGTUNC040V, with five members voting in favour and one opposed. The proposal was therefore recommended for implementation.

The Authority's decision

The Authority has considered the issues raised by the modification proposals UNC392 and iGTUNC040V and the Final Modification Reports (FMR) dated 15 December 2011 and 30 December 2011. The Authority has considered carefully and fully taken into account the consultation responses provided alongside the FMRs. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC and iGT UNC¹¹; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹².

Reasons for the Authority's decision

We have assessed the proposed modification against the UNC and iGT UNC Relevant Objectives. We consider this proposal will further the objective (d) of both codes, (the securing of effective competition), and is neutral with regards to the other Relevant Objectives.

The Proposer and some respondents to the iGT UNC consultation considered that iGTUNC040V will better facilitate the efficient and economic operation of the pipeline system. However, they did not set out the reasons for this assessment. We consider that the AQ Table impact on iGT investment plans is likely to be reduced due to the submission of meter reads and the AQ Review process. We therefore consider that the increase in the AQ Table accuracy is likely to be more relevant to Relevant Objective (d). We have further considered that the proposed modification is consistent with the Authority's principal objectives and statutory duties.

Relevant Objective (d): The securing of effective competition between Shippers

The Proposer and the majority of respondents to the UNC392 and iGTUNC040V consultations considered that the modifications would better facilitate the Relevant Objectives of both codes. In particular the promotion of effective competition by improving the accuracy of energy and cost allocation to Shippers. The nine respondents to the UNC consultation supported the implementation of UNC392. Of the eight respondents to iGTUNC040V consultation, six were in favour of its implementation, one offered qualified support, and one was opposed.

The majority of respondents to both consultations noted that it had been several years since the values within the AQ Table had been changed. They agreed that a revised AQ

¹⁰ The iGT UNC Panel and the UNC Panel are established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules and the UNC Modification Rules respectively.

¹¹ iGT UNC relevant objectives are set out in Standard Condition 9 of the Gas Transporters Licence, whereas the UNC relevant objectives are set out in Standard Special Condition A11(1), available on the Ofgem website at: <http://epr.ofgem.gov.uk>

¹²The Authority's statutory duties are wider than matters which the Panel must take into consideration and in terms of this decision are detailed in the Gas Act 1986.

Table was required to reflect current lower average gas consumption. The majority of respondents agreed that implementation of this proposal would facilitate more accurate estimation of the volume of gas off-taken at CSEPs and of gas allocated to Shippers. In turn, this would improve the accuracy of costs allocated between Shippers.

One respondent, who offered qualified support to iGTUNC040V, stated that it would be in a position to fully support the modification subject to appropriate implementation timescales. Another respondent opposed the modifications because of the potential implementation misalignment between UNC392 and iGTUNC040V. The latter indicated that, due to impacts on their systems, it would require a minimum of nine months to implement the modifications. We address these issues below.

On 9 March 2011, Ofgem rejected modifications UNC328 and iGTUNC031V to amend the CSEP NExA AQ Table within the UNC and iGT UNC. One of the concerns we highlighted was the insufficient '*assurance over the methodology and accuracy of the proposed figures*'¹³. We welcome the efforts that the industry has made to work together under Review Group iGT030 to provide clarity and agree the methodology to determine the revised AQ Table. We support the proposed revision of AQ values to increase their accuracy, particularly given it has been several years since they were last updated.

We consider that the modifications should lead to the AQ Table being more reflective of current domestic consumption levels. We note that the accuracy of the values in the AQ Table should contribute to iGTs being able to levy more cost-reflective transportation charges. This would improve competition by providing Shippers with charges that are cost reflective. We therefore consider that the modification will better facilitate relevant objective (d) of both the UNC and iGT UNC.

Further Issues

Implementation date

The Proposer suggested an implementation date of 1 October 2011, or an implementation date of 14 business days after an Authority decision, if this is received after 30 September 2011. The Proposer also indicated that the revised AQ Table should be utilised only for properties connected from the date of implementation.

The respondent who opposed iGTUNC040V argued that the proposal was not clear on when the new AQ values would be applied from, in particular with regard to existing developer quotations/contracts where the connection has not yet been made. This same issue had been highlighted by the iGT030RP workgroup. The workgroup noted that there may be systems changes required for iGTs to accommodate updated AQ values. The workgroup added that the changes may also impact on any contract offerings iGTs currently had in the market place.

Three respondents to the UNC392 consultation suggested an implementation date of 1 January 2012, while another respondent suggested 1 April 2012. The UNC Panel did not propose a specific implementation timescale. The iGT UNC Panel determined that implementation should be no earlier than four months following Authority decision.

Having considered this issue carefully, we are of the view that the reduction in the AQ values may have an impact on iGTs, in particular in dealing with sites that are already in discussion with developers but have not yet been connected. Therefore, sufficient implementation lead time should be given to accommodate this potential impact. We note

¹³<http://www.gasgovernance.co.uk/sites/default/files/iGTUNC031VD.pdf>

however that the iGT030RP workgroup published its report in May 2011, and that iGTUNC040V was raised in August 2011. We would therefore expect parties to have been aware of the potential for change in this area and to have made appropriate arrangements to accommodate any likely outcomes. We consider that an implementation period of four months after this decision should provide an appropriate lead time to network operators to adapt to this modification. We would therefore expect implementation to take effect by no later than 1 July 2012. We would also expect the UNC and iGT Panels to coordinate the date of implementation of both modifications.

Governance of the AQ Table review

The iGT030RP workgroup recommended that the methodology it developed, and the associated AQ collation exercise reporting requirements, should be added to the AQ Procedure document¹⁴. We would support such measures with the aim of providing additional clarity on the governance of the review of the AQ Table. We would also support measures to ensure that a proper framework is in place to update the AQ Table.

iGT settlements regime

One respondent to the iGTUNC040V consultation indicated their preference for a transition to a more effective settlement regime for iGT sites based on convergence with the framework for non-iGT sites. We note that the gas industry is currently undertaking work that has the potential to lead to a significant review of the current market arrangements, including the UNC and iGT UNC. Ofgem consultation on smarter energy markets, Project Nexus, iGT38 and iGT39 are examples of such work, and we would encourage the industry to engage fully with these work streams.

AQ Table under the RPC Guidelines document and UNC Section G, Annex 3

Further to the implementation of these modifications, the Authority will update the AQ Table under the RPC Guidelines document. We note that the AQ Table also sits in the UNC, Section G, Annex 3, but updating this table was not within the scope of either modification. We would therefore encourage the industry to review whether the AQ Table under Section G, Annex 3 should be aligned with the proposed AQ Table in these modifications.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC392: 'Proposal to amend Annex A of the CSEP NExA table, by replacing the current version of the AQ table' be made.

In accordance with Standard Licence Condition (SLC) 9 of the Gas Transporter licence, the Authority directs that modification proposal iGT040V: 'Amendment to AQ Values present within the CSEP NExA Table' be made.

Colin Sausman
Associate Partner, Smarter Markets

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

¹⁴ The 'AQ procedure' document is an Ancillary Document to the iGT UNC. It sets out the operational aspects of the annual iGT AQ review procedures and provides additional procedural information on the iGT AQ review process.