

Modification proposal:	East Surrey Pipelines Connections Limited (ESPC049) Insert Obligation for iGTs to publish and maintain a co-ordinated register of pipes.		
Decision:	The Authority¹ decided to reject this proposal		
Target audience:	ESPC, Parties to ESPC Network Code and other interested parties		
Date of publication:	30 January 2007	Implementation Date:	N/A

Background to the modification proposal

Independent Gas Transporters (IGTs) own and operate small local gas networks and levy distribution charges on shippers. IGT's networks are either connected directly to Gas Distribution Networks (GDNs) via a Connected System Entry Points (CSEP) or indirectly via another IGT (a Nested CSEP). Both industrial and commercial and domestic consumers are connected to IGT networks.

The quantity of gas that is deemed to have been offtaken at CSEP Supply Points is established by the IGT and communicated to GDNs in the form of standard Annual Quantity (AQ) values, in aggregate. The standard AQ values are set out in the CSEP Network Exit Agreement (NExA).

IGTs are required under the terms of the NExA Agreement to submit timely updates to GDNs to allow them to facilitate the reconciliation of larger supply points gas consumption. GDNs then compare the corrected metric volume to the deemed volumes and calculate a Reconciliation Quantity (RQ) and Reconciliation Clearance Value (RCV) to the appropriate User.

Small Supply Points (SSPs) within CSEPs are reconciled via the Reconciliation by Difference (RbD) process. Directly connected and CSEP AQs are considered together in deriving the total market share. Thus CSEP AQs attract reconciliation charges in the same ratio as those that are directly connected.

The CSEP NExA Agreement governs the relationship between the CSEP User (the relevant IGT) and the appropriate GDN. Although the NExA obligations set out the timing and method for provision of data and the responsibilities of each party involved, concerns have been raised that parties are not adhering to their NExA obligations. There is little incentive either financial or commercial for parties to comply with the terms of the CSEP NExA to trigger the reconciliation. The lack of timely AQ Updates and reconciliation volumes by IGTs is considered to create undue risk to RbD, in terms of creating a potential misallocation of energy volumes through the RbD smearing mechanism, and thereby impacting on costs.

AQ updates and CSEP reconciliation activity relating to individual IGTs are reported by xoserve to the IGT Workgroup. However there is a concern that there is no verification undertaken to ensure that IGTs are submitting all supply point activity over their Networks. The problem is considered to be compounded where Nested CSEPS exist with

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

the lead IGT regularly reporting that they receive no AQ Updates from IGTs downstream of their Networks.

Furthermore, individual NExA Agreements are negotiated between IGTs where Nested Networks exist. There are concerns that there is a lack of transparency on what obligations are placed on each of the Parties to provide AQ Updates and reconciliation volumes. In addition, there are concerns that there may be a lack of appropriate incentives for Transporters and IGTs to re-negotiate the terms of the NExA and introduce charges for failure to adhere to the obligations.

The modification proposal

To address the concerns of transparency and verification with regards to the transfer of AQ data to the GDNs, the modification proposes that the iGTs collectively, should be obliged to publish and maintain a coordinated and complete register of all connected CSEPs. This register should include the ability to identify where present, Nested CSEPs and should outline the relationship of the downstream iGT network to the upstream connection.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) received 22 December 2006. The Authority has considered and taken into account the responses to ESPC's consultation on the modification proposal which are attached to the FMR.

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of ESPC's Network Code².

Reasons for the Authority's decision

In 2005 Ofgem undertook a consultation exercise - Designated Registrar of Pipes (DRP) Licence Condition / Accuracy of Gas Pipeline Records which sought industry views on what measures could be put in place to improve the accuracy of GDN pipeline records. The concern of that consultation was similar to this proposal in that they both ultimately seek to establish a register of pipes that would be updated and maintained centrally. After an industry workshop and, taking account of the responses³ received to that consultation Ofgem determined that there was no benefit in appointing a DRP as their establishment would not improve the accuracy of pipeline data and further that appointing a DPR would lead to additional costs being incurred by the industry with little benefit.

Ofgem recognises the need for AQ data to be communicated to the GDNs in a timely manner particularly as this process is fundamental to the RbD process. However, we do not believe that an obligation within a single Network Code to establish a single register of all iGT networks and CSEPs would facilitate or promote timely transfer of data.

We acknowledge the views of the two respondents that establishing a central register of pipes would enable shippers to reconcile AQ values that have been passed between IGTs.

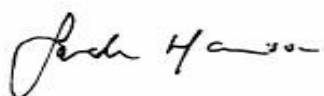
² As set out in Standard Condition 9(1) of the Gas Transporters Licence, see <http://epr.ofgem.gov.uk/index.php?pk=doc173596>

³ DRP consultation responses are available at <http://www.ofgem.gov.uk/>

Having a register of pipes that reflect all iGT connections including Nested CSEPs, would benefit the shippers in that they will not have to approach more than one iGT shippers to determine the AQ value for a particular nested CSEP. However, the proposal does not define how the register would operate in practice. We also note that the proposal will require each iGT to establish and maintain a register of connections that will represent all iGT connections, thus requiring the iGTs to co-operate in a manner that would ensure that the register is up to date. Ofgem believes this could potentially be highly costly and an inefficient management of resources.

One respondent believes that network security would be improved with greater awareness and visibility of networks that may be impacted in the event of a gas emergency. Ofgem observes that standard condition 6 - Emergency Service and Enquiry Service Obligations of the Gas Transporter licence requires the iGT to establish, operate and maintain an emergency enquiry service that is resourced at all times.

Considering the points outlined above, it is Ofgem's view that inclusion of the proposed provisions within the relevant Network Codes would not better facilitate the achievement of relevant objective (a). However this does not preclude the iGTs working together if such an arrangement would promote efficiency gains to the industry and ultimately provide a benefit to consumers.



Sarah Harrison
Managing Director, Corporate Affairs

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