

Independent Gas Transporters,  
Shippers and other interested  
parties

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## **Independent Gas Transporters' Relative Price Control – decision on next steps**

1. In this letter we<sup>1</sup> set out our next steps following our consultation on the Independent Gas Transporters' (IGT) Relative Price Control (RPC) which closed on 26 July 2013.<sup>2</sup> We intend to publish a 28 day statutory consultation on amendments to Special Condition 1 of the IGT licence and to continue our periodic monitoring of IGT RPC charges.

### **Consultation**

2. In May 2013 we published a consultation letter<sup>2</sup> seeking views on making changes to the RPC guidance document in order to improve overall clarity and address a number of specific drafting issues. We also asked whether changes to the IGT licence were warranted in order to resolve some of the issues raised and invited views on our proposed withdrawal from monitoring IGT RPC charges.
3. Please see the consultation letter for further background on the consultation and the issues considered.

### **Consultation responses**

4. We received nine responses to our consultation, including four from IGTs and five from shippers. The responses can be viewed on our website.<sup>2</sup>

#### *Monitoring of IGT RPC charges*

5. There were mixed views on whether we should cease our monitoring role. Whilst the IGT respondents agreed that this was appropriate, shipper respondents disagreed. Shippers were not confident that the introduction of a modification to the Uniform Network Code (IGT043VV) necessarily enabled them to monitor RPC charges effectively.

#### *Amendments to the RPC guidance document and IGT licence*

6. Respondents unanimously agreed with our amendments to the RPC guidance document and considered that they provided clarity on a number of issues, including the multiplier applied to infill surcharges and the infill surcharge period. However, three respondents

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<sup>1</sup> The terms "the Authority", "Ofgem" and "we" are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> Independent Gas Transporters' Relative Price Control – Consultation on revising the guidance document and potential changes to Special Condition 1 of the IGT licence, May 2013:  
<https://www.ofgem.gov.uk/publications-and-updates/independent-gas-transporters%E2%80%99-relative-price-control-%E2%80%93-consultation-revising-guidance-document-and-potential-changes-special-condition-1-igt-licence>

considered that even with these changes to the guidance there should still be changes to the IGT licence to mitigate the risk of future misinterpretation of contentious and/or erroneous conditions.

7. There were mixed views about whether we should amend the IGT licence to address the issue of IGT charges not accurately tracking GDN charges between the RPC cap and floor. Four respondents considered that this was appropriate, whilst four other respondents did not think that this issue, or other issues, were sufficiently material to warrant a licence change. Some of those who queried the materiality of the issues pointed to the possibility of reviewing the IGT licence at a later time, as part of a wider review of IGT arrangements.

#### *Wider issues with the RPC arrangements*

8. A few respondents raised additional policy issues with the RPC arrangements. These respondents believed that there could be a need for more fundamental changes than those consulted on. Suggestions included a potential requirement for IGT charges to equal local GDN charges with no cap and floor, a change to the basis on which properties fall under legacy arrangements and a review of the calculation used to determine the annual uplift applied to RPC charges.

### **Our decisions and reasoning**

9. We have carefully considered the consultation responses in reaching our decisions. These decisions and our reasons are below.

#### *We intend to continue our periodic monitoring of IGT RPC charges*

10. As all shipper respondents raised concerns we have decided to continue to monitor IGT RPC charges as we have been doing to date. However, we will keep this under review, particularly as we expect that the arrangements introduced by IGT043VV will make IGT RPC charges increasingly transparent to shippers over time.

#### *We intend to publish the revised RPC guidance document*

11. As all respondents agreed with our proposed changes to the RPC guidance document, we intend to publish this revised version. The only change to the version we consulted on will be an addition to reflect our decision to continue monitoring IGT RPC charges.

#### *We intend to launch a statutory consultation on amendments to Special Condition 1 of the IGT licence.*

12. We acknowledge that, to date, the potential for IGT charges to track GDN charges inaccurately between the RPC cap and floor has not presented any significant issues. However, we note that several respondents still thought it was appropriate to amend the licence to provide certainty for both IGTs and customers and to prevent this from becoming a significant issue in the future.
13. We also agree with several respondents that whilst the revised guidance document and this consultation process have clarified a number of issues, there is still a risk that certain conditions could be misinterpreted. It is in all parties' interest that the licence condition is free of drafting errors and free of ambiguity.
14. We therefore think it is appropriate to make amendments to Special Condition 1 of the IGT licence at this time. We intend to make changes only to address the following issues considered in our original consultation letter:
  - The issue of IGT charges inaccurately tracking GDN charges between the RPC cap and floor

- The potential ambiguity surrounding the drafting of conditions relating to the infill surcharge and the annual update of charges for properties that enter the RPC in the winter quarter
- Drafting errors.

15. The additional policy issues and more fundamental changes to the RPC arrangements put forward by respondents merit further consideration. However, we do not intend to explore them at this time or for them to inform the licence changes proposed in our statutory consultation. Instead, we intend to consider these issues as part of a wider review of IGT arrangements in the future.

### **Next steps**

16. We intend to publish a statutory consultation on our proposed amendments to Special Condition 1 of the IGT licence shortly. We will also publish the revised RPC guidance document.

17. Any questions about this consultation, our decisions, or the IGT arrangements in general should be addressed to Jacob Kane ([Jacob.kane@ofgem.gov.uk](mailto:Jacob.kane@ofgem.gov.uk)).

Yours sincerely



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