Modification proposal:	**Independent Gas Transporter Uniform Network Code (iGT UNC): Introduction of annual updates to the AQ values within the CSEP NExA table (iGT053)**		
Decision:	The Authority[1] consents to this proposal being made[2]		
Target audience:	Gemserv, Parties to the iGT UNC and other interested parties		
Date of publication:	16 July 2014	Implementation Date:	1 October 2014

Background

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. 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 location.[5]

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 Gas Distribution Network (GDN). The AQ Table is published in both the Uniform Network Code (UNC) and in the iGT UNC and is periodically revised. Transportation charges to supply points connected since 1 January 2004 are subject to a relative price control (RPC[6]), which broadly links them to the equivalent charge that would have been levied had they been connected to a GDN.

Whilst the review of AQs was previously ad hoc, following the implementation of iGT051[7] a revised table of AQ values is now produced each year. However, there is currently no requirement for the values contained in the revised table to be adopted for billing purposes and no automatic mechanism to reflect them within the CSEP NExA.

The modification proposal

iGT053 seeks to mandate the revision of the AQ values within the CSEP NExA table following the completion of each annual review.

Each December an AQ Review Workgroup will be convened, at which the iGTs will present the outputs of the AQ Review, together with a proposed AQ NExA table. At the AQ Review Workgroup, iGTs and shippers will have the opportunity to present any data or evidence which challenges the proposed AQ NExA table.

[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.
[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] Property types range from one bedroom to six bedroom properties. Locations are split into South, Average, and North.
[6] Further information on the calculation of price caps under the RPC is available on the Ofgem website, www.ofgem.gov.uk/Networks/GasDistr/IGTReg/Documents1/10068-RPCguidance.pdf
[7] iGT051: '*Amendment of iGT AQ Review Procedures document – additional reporting*'

If there are no challenges, the AQ Review Workgroup would produce a report to be presented to the January iGT UNC Panel. Following consideration of the report and any outstanding challenges, the iGT UNC Panel would take a vote on whether the proposed AQ NExA table should be implemented, which will be the case unless there is a majority against its implementation.

Where the iGT UNC Panel votes by a majority not to implement the AQ NExA table, the concerns of the Panel would be recorded by the iGT UNC administrator. The AQ NExA table would then be progressed as a self governance modification proposal to the iGT UNC, returning to the March iGT UNC Panel following consultation and the production of a Final Modification report ('FMR').

As with other self governance proposals, the AQ NExA table would be implemented if there is a majority of the iGT UNC Panel in support. In the event that the iGT UNC Panel is unable to reach a decision, the AQ NExA table will not be updated that year and the iGT UNC administrator will issue a notice of non-implementation. This decision, or failure to reach a decision, would be subject to the right of appeal to the Authority, in keeping with other such self governance proposals.

iGT UNC Panel[8] recommendation

The iGT UNC Panel met on 18 June 2014 and voted by a majority in favour of implementing iGT053.

The Panel supported the view of respondents to the initial consultation that it would further facilitate objectives (a), (b) and (d). The Panel also determined that iGT053 should be implemented in the first scheduled release to fall at least two months after the Authority decision, i.e. 1 October 2014.[9]

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal and the FMR dated 20 June 2014. The Authority has considered and taken into account the responses to Gemserv's consultation on the modification proposal which are attached to the FMR.[10] The Authority has concluded that:

1. implementation of iGT053 will better facilitate the achievement of the relevant objectives of the iGT UNC;[11] and
2. directing that iGT053 be made is consistent with the Authority's principal objective and statutory duties.[12]

[8] The iGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules
[9] The scheduled iGT UNC release dates can be found here: http://www.igt-unc.co.uk/iGT+UNC+and+Related+Documents
[10] iGT UNC modification proposals, modification reports and representations can be viewed on the iGT UNC website at http://www.igt-unc.co.uk/
[11] As set out in Standard Condition 9 Gas Transporters Licence, see: http://epr.ofgem.gov.uk/index.php?pk=folder414978
[12] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

Reasons for the Authority's decision

We note that three of the five respondents supported the implementation of iGT053, while another offered qualified support.

We agree with the iGT UNC panel that this proposal should be considered against relevant objectives (a), (b) and (d). We also consider that iGT053 would further facilitate relevant objective (f), and that it would have a neutral impact upon the other relevant objectives.

Relevant Objective (a) the efficient and economic operation of the pipeline system

Some of the respondents, including one of the iGTs, suggested that implementation of iGT053 will enable the iGTs to accurately plan their network capacity and accurately price new domestic connections based on up-to-date AQ values.

However, one respondent raised concerns at the prospect of an annual AQ update, suggesting that, as they are based on meter readings, there is a potential that one year of data could provide misleading signals, for instance if they were obtained over a particularly mild winter. They felt that this could be detrimental to pipeline planning and as such could affect the integrity of the network.

We recognise that annually changing AQ values may introduce a degree of uncertainty for iGTs. However, we would expect the AQ Review methodology to be sufficiently robust that the values cannot be unduly impacted by unseasonal weather. We understand that AQs are only one of several factors that will impact upon network planning decisions, along with maximum flow rates, etc. We would also expect such planning decisions to include a degree of forecast usage rather than be based solely on historic data. We therefore consider that the more dynamic AQ values facilitated by this proposal should be readily manageable by the iGTs and have a positive rather than detrimental impact upon network planning. We therefore consider that iGT053 will further facilitate Relevant Objective (a).

Relevant objective (b) – the coordinated, efficient and economic operation of the pipelines system of one or more other relevant gas transporters

We consider that the benefits to network planning have been largely captured under relevant objective (a). However, to the extent that some iGT networks form part of a 'nested CSEP', i.e. connected downstream of another iGT rather than directly to the National Transmission System or a Gas Distribution Network, we consider that the improved accuracy of AQs will also facilitate the planning and operation of such inter-iGT arrangements. Therefore, iGT053 will also further facilitate Relevant Objective (b).

Relevant Objective (d) - the securing of effective competition between relevant shippers and relevant suppliers

We agree with those respondents who suggested that the annual revision of AQ values will lead to the more accurate allocation of energy and transportation costs, which will further facilitate effective competition. Whilst we accept that the AQ values could be updated each year by a party raising a modification to reflect the outcome of that year's annual review, this has not always been the case in recent years and those values have often become several years out of date before a party has raised a modification to revise them. We therefore consider that implementing this proposal will ensure that the values

are promptly revised in line with the annual AQ review. We therefore consider that the modification will better facilitate Relevant Objective (d) of the iGT UNC.

Relevant Objective (f) - the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code

One respondent suggested that by introducing a further governance process specifically for AQ updates, rather than utilising the existing iGT UNC modification procedure, iGT053 would create inefficiency in the governance of the iGT UNC. Another respondent considered that changes in AQ values could have a material impact upon parties and therefore any modification, as may be necessitated by the iGT UNC Panel's failure to accept the AQ Review Workgroup report, should not be classified as self governance.

We have some sympathy with both of these concerns. We recognise that introducing a bespoke governance procedure for the review of AQs introduces a level of complexity into the administration of the iGT UNC. However, the failure of AQ values to be updated in recent years demonstrates that there is a need for a default process, rather than rely upon iGT UNC parties to raise an ad hoc modification at their own discretion. Pending the implementation of iGT060[13] on 1 October 2014, the most recent values in the AQ NExA table are those from the 2010 review. It is of further concern that parties may only be incentivised to raise such proposals when the revision to AQ values is in their favour.

We therefore consider that the implementation of iGT053 will go a long way to ensuring that the energy and transportation charges that are derived from AQ values are as up to date and therefore as accurate as possible. We recognise that the proposed role of the AQ Review Workgroup differs from standard iGT UNC modification procedures. However, we consider that it will provide an efficient and effective means for parties to raise and address any concerns with the results of the AQ Review.

We consider self governance to be the appropriate default position for any modification proposal that may be required, given that the decision on whether or not to update the AQ NExA table is for the iGT UNC Panel in the first instance. We would expect any issue arising to be resolved by iGT UNC Parties, as facilitated by the AQ Review Workgroup. However, we also consider that self governance is simply the default position. Whilst we would expect that proposals to revise the AQ NExA table would meet the self governance criteria, there is nothing in the legal text precludes the Authority from calling in a proposal as requiring our consent, if we considered it appropriate.

Given the above, we consider that the implementation of iGT053 would further facilitate Relevant Objective (f).

Decision notice

In accordance with Standard Condition 9 of the Gas Transporters Licence, the Authority hereby directs that modification proposal iGT053: '*Introduction of annual updates to the AQ values within the CSEP NExA table*' be made.

Rob Church
Associate Partner, Smarter Markets and Smart Metering
Signed on behalf of the Authority and authorised for that purpose

[13] iGT060: 'Amendment to AQ Values Present Within the CSEP NExA AQ Table Following the 2013 AQ Review'