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Transco, shippers and interested
parties

Your Ref:
Our Ref: net/cod/mod0624
Direct Dial: 020 7901 7346
Email: roger.morgan@ofgem.gov.uk

10 April 2003

Dear colleague,

RE: Modification 0624 'Changes to the 2003 Annual Quantity (AQ) Amendment Process'/Modification 0614 'Suspension of 2003 Smaller Supply Point Amendments'

Ofgem has considered the issues raised by urgent modification 0624 'Changes to the 2003 Annual Quantity (AQ) Amendment Process' and non-urgent modification 0614 'Suspension of 2003 Smaller Supply Point Amendments' and has decided to direct Transco to implement modification 0624 and reject modification 0614. This decision letter sets out respondents views to both modifications and provides Ofgem's reasons for this decision.

Background

During Transco's 2002 Smaller Supply Point (SSP) AQ review process a number of shippers submitted amendments using read periods that did not comply with Transco's network code. Also, one shipper submitted a large number of SSP amendments that solely reduced AQs.

Transco rejected amendments that utilised inappropriate read periods, however, Transco did not reject amendments that solely reduced AQs because the network code does not contain any rules to prevent such activity.

The industry via Transco's AQ sub-group discussed in detail measures to reduce risks arising from shipper amendment activity. In particular, the sub-group recommended the development of network code changes to prevent shippers from selectively submitting SSP AQ amendments.

Modification Proposals

Modification 0624 was raised by Transco as an urgent modification. Ofgem agreed urgent status and the modification was circulated to shippers for a seven day representation period. The modification proposes the following:

- Establish a 20% tolerance limit on smaller supply point amendments. Any amendments will be rejected by Transco if shippers seek to alter Transco's provisional AQ values by less than 20%;
- remove from Transco's network code the existing tolerance of 1000 kWh;
- introduce into the code reasons for amendments. That is, amendments may only be raised if one or more of the following conditions are satisfied:
 - the provisional AQ was calculated using inaccurate meter asset data; and/or
 - the provisional AQ was calculated using inaccurate meter reading data;and/or
 - the shipper AQ was derived using an end read that is more recent than the end read used by Transco to derive the provisional AQ and/or Transco did not propose an AQ.
- introduce into the code obligations on shippers to submit amendments in a balanced manner i.e shippers should not be selective in their amendment submission.

Modification 0614 was raised by Scottish and Southern Energy (SSE) and proposes that:

- Transco continue to calculate provisional AQ values for smaller and larger supply point AQs;
- shippers are able to submit amendments for larger supply points and supply points that cross the 73,200 kWh threshold, shippers cannot submit amendments where the AQ remains in the SSP market (Transco will reject such amendments);
- manifest errors can be amended by shippers;
- for meters that remain in the smaller supply point market shippers will be reliant on Transco's provisional AQ.

Views of Respondents

Shippers raised a number of concerns to both modification proposals these are set out below with a discussion and conclusion.

Gaming of AQs

A number of respondents express concerns about the potential for gaming AQs.

Transco's AQ sub-group has spent a considerable amount of time discussing shipper amendment activity. The AQ sub-group concluded that Transco's network code rules contains a number of weaknesses. For example, the code does not include any rules specifying amendment submission criteria. Also, the code does not prevent shippers from selectively submitting AQ amendments. Therefore, the sub-group focused on ways to improve network code rules and put in place measures to oblige shippers to approach amendment activity in a balanced manner i.e to prevent shippers from so called 'gaming' activity by submitting AQs that solely decrease Transco's provisional AQ values.

Modification 0624 improves Transco's AQ network code rules. It proposes to put in place criteria for amendment submission, a revised tolerance level and an obligation on shippers not to submit amendments in a selective manner. 1.6.4(c) (ii) of the proposed legal text obliges shippers to notify Transco of all shipper AQ values generated by AQ methodologies. Whilst further industry discussion takes place to evaluate whether significant changes are required to Transco's SSP AQ review process, modification 0624 provides better safeguards for shippers as this modification removes some shipper risks and obliges shippers to undertake amendment activity in a balanced manner.

AQ Methodology

One shipper questions how a consistent methodology can be defined or measured. For example, if the true level of amendments is 30% up and 70% down would this approach be deemed as inconsistent.

During previous SSP AQ reviews the industry has endorsed the notion of a balanced approach to amendment submission. However, this approach has not been incorporated into the code. The legal text accompanying modification 0624 suggests that shippers should apply an AQ methodology that is consistent to all supply points and not materially differentiate in its submission of amendments. The balanced approach does not necessarily require shippers to submit 50% of amendments up and 50% down its aim is to oblige shippers/suppliers to submit all values that satisfy the AQ rules set by Transco.

Erroneous AQs

A number of shippers suggest that modification 0614 does not provide shippers with protection from erroneous AQs. That is, the manifest error provisions in 0614 (and defined in Transco's network code) do not allow shippers to amend erroneous SSPs.

Via its trial AQ calculations Transco attempts to identify and resolve potentially erroneous AQs. However, it does not completely eradicate all erroneous AQs. Therefore, shippers are reliant on the amendments phase to reduce risks that may arise from erroneous AQs. The suspension of the amendments phase will not allow shippers to challenge erroneous AQs that do not satisfy the threshold crosser

exceptions set by modification 0614. Without the opportunity to challenge erroneous SSP AQs the AQ applies until another review takes place.

Ofgem's Views

The following issues have influenced Ofgem's decision:

Views of shippers

The majority of shippers who responded to modification 0624 support its implementation. Respondents welcome measures to prevent shippers from submitting amendments that only reduce AQs. The majority of shippers do not support modification 0614 mainly because shippers are concerned that 0614 does not allow shippers to mitigate against AQ errors that do not fall into the category of manifest errors.

Erroneous AQs

Shippers require opportunities to amend AQs particularly when the data used to derive the AQ is inaccurate. Suspending the smaller supply point amendment phase removes opportunities for shippers to challenge Transco's provisional AQ value which may have been calculated utilising inaccurate data. Whilst modification 0624 seeks to put in place more robust network code rules to deter shippers from selectively submitting AQs it allows shippers to challenge inaccurate AQs.

The main difficulty with modification 0614 is that shippers will be reliant on Transco's provisional AQs for the majority of meter points that remain in the smaller supply point market. Any AQ errors will not be subject to amendment unless the supply point crosses the 73,200 kWh threshold. Therefore, (for the majority of smaller supply points) Transco's AQ will apply until another AQ review takes place. Shippers will only be able to rectify (until 31 May in the relevant gas year) the AQs of smaller supply points where the shipper considers that the site should be a larger supply point i.e AQ has crossed the 73,200 kWh threshold.

Ofgem's Decision

Ofgem considers that modification 0624 offers a more comprehensive solution and better facilitates Transco's relevant objective of operating an efficient and economic pipeline system for the reasons set out above.

Ofgem considers that both modification proposals are seeking to make short term changes to the AQ review process. We believe that further changes are required. Therefore, we urge the industry to consider carefully AQ review requirements and associated issues. For example, impacts of process changes on RbD and rules to prevent the selective submission of meter reads.

We understand that Transco's AQ sub/strategy group intends to discuss shipper requirements for future AQ reviews. A number of possible approaches have been previously discussed by this group. For example, rolling AQ upon receipt of meter reads. Such approaches and possibly others will be revisited shortly by Transco's AQ sub/strategy group. It is anticipated that AQ review process changes could be developed in readiness for AQ 2004.

Transco has organised an AQ operational forum on the 22 April 2003 to discuss operational aspects of AQ 2003. This meeting provides an opportunity for shippers to seek further understanding of the changes proposed by modification 0624. For example, shippers can seek clarification on any aspect of modification 0624.

If you wish to discuss any aspect of this letter, please do not hesitate to contact Roger Morgan via email at roger.morgan@ofgem.gov.uk or by phone on 020 7901 7346.

Yours sincerely

Iain Osborne
Director, Supply