

Draft Modification Report
Extending established Network Code governance arrangements to relevant Transco documents
Modification Reference Number 0730
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Nature of Proposal is as follows:

"A number of procedural documents which set out how Transco and users implement Network Code obligations are not currently subject to joint industry governance arrangements. This is despite the fact that many of the matters outlined in these documents can and do have a significant impact on the quality of service shipper-suppliers are able to provide to their customers.

Although many of these documents are referred to in the Network Code they are typically managed by Transco outside the Code. Amendments are invariably made at the discretion of Transco. Greater visibility of these documents is also desirable. Although updated documents are circulated and consulted on from time-to-time, these are not readily available to new users; indeed such users would not necessarily be aware the documents exist to ask for them in the first place.

This proposal specifies which existing industry documents should be subject to best practice Network Code change control procedures and also requires any new procedural documents that deal with how parties implement Network Code obligations to be subject to identical controls. The said documents would become known collectively as Network Code Procedures. An indicative list of Network Code Procedures initially covered by this proposal is attached (Appendix A).

This proposal also requires Transco to publish Network Code Procedures on an easily accessible website. Any document revisions would be given a version number with earlier versions continuing to be made available.

From time-to-time Transco would propose changes to a particular Network Code Procedure. Such changes would be subject to approval by majority vote of the Network Code Committee. The Network Code Committee could if it considers it appropriate (again subject to a majority vote) refer any proposed change to a relevant sub-committee, who would in turn consider the matter and make recommendations to the Network Code Committee. Transco would also be required to bring any newly established Network Code Procedures to the Network Code Committee for approval. In effect this proposal confirms and clarifies the existing powers of the Network Code Committee that are already set out in Section V10 of the Code.

Although under this proposal Transco would continue to instigate all changes to Network Code Procedures, it would only be able to implement procedural changes by first formally satisfying industry stakeholders. Such arrangements would be consistent with approval processes established in industry codes elsewhere. It is also consistent with Ofgem's principles of good governance set out in their June 2003 consultation document "Gas Retail Governance – Further Consultation".

This proposal will help ensure robust, co-ordinated development of Network Code Procedures, ensuring effective implementation of particular Network Code obligations and in so doing will better facilitate

relevant objective (a) the efficient and economic operation by the licensee of its pipe-line network. It will also make it easier for new entrants and potential new entrants to access and familiarise themselves with key industry processes thereby helping to promote relevant objective (c) the securing of effective competition between relevant shippers and between relevant suppliers.

Appendix A

Indicative list of Network Code Procedures covered by this proposal

- Network Code Operations Reporting Manual
- LDZ Shrinkage Adjustments Methodology
- Invoice Query Estimation Methodology
- Standards of Service Query Management Operational Guidelines
- Network Code Reconciliation Suppression Guidelines
- Guidelines for the Treatment of Shared Supply Meter Points
- Operational Rules Governing the Supply of Invoice Charges via the Ad-hoc Process

Note the list is not exhaustive and consideration may need to be given to include other relevant procedural documents. The proposal envisages that any new procedural document established by Transco setting out detailed matters for the implementation of Network Code obligations should also be cover by this proposal."

2. Transco's Opinion

Transco does not currently support this proposal in its entirety. It has fundamental questions as to whether or not it is appropriate or efficient for further documents to become in effect part of the Network Code, and only subject to Network Code Governance change provisions. It also believes that there are certain aspects that need to be clarified prior to the preparation of legal text and would invite representations on these specific points:

- The proposer does not totally clarify the criteria for inclusion of procedures. However, the examples given in Appendix A of this Proposal would indicate the following criteria for inclusion:
 - A reference either to this specific procedure, or to a requirement for a procedure that is addressed by the relevant document, is made in the Network Code.
 - This Network Code reference gives a general obligation on Transco to consult without providing the details on how Transco should carry out that consultation.
 - There is, however, one procedure listed where the existing text makes clear that this is not part of the Network Code (S2.4.7). Transco suggests that such procedures should not be included.
- Transco, therefore, believes that, as a minimum, clearer, narrow criteria as to what documents are included, would be necessary.
- The Network Code Committee by taking on this role becomes, in this context, custodian of the relevant objectives. All decisions on whether to accept or reject a new procedure or a revision to an

existing procedure, should be on the basis of whether the change would further the achievement of these objectives.

- Whilst Transco does not anticipate any failures to agree a new procedure or amendment, this possibility should be recognised. A request to the Authority for a decision is therefore suggested in the event of deadlock.
- Transco has no objections in principle to placing the procedures on its web-site. This, however, should be subject to constraints of commercial confidentiality

Transco agrees with the proposer that detailed review of procedures should take place in Network Code Sub Committees. This accords to some extent with current practice where Transco has used either specific workgroups or the existing Network Code Workstreams to conduct the consultation. The criteria for the appointment of members is detailed within V10.4.3 and whilst this differs from the more open membership of Workstreams, Transco considers it to be appropriate.

3. Extent to which the proposed modification would better facilitate the relevant objectives

The proposer suggested that implementation of this Proposal would "help ensure robust, co-ordinated development of Network Code Procedures, ensuring effective implementation of particular Network Code obligations and in so doing will better facilitate relevant objective (a) the efficient and economic operation by the licensee of its pipe-line network. It will also make it easier for new entrants and potential new entrants to access and familiarise themselves with key industry processes thereby helping to promote relevant objective (c) the securing of effective competition between relevant shippers and between relevant suppliers."

Whilst acknowledging this aim, Transco believes that development of the existing procedures has been appropriate and, in particular, consensus with Users has always been sought. Transco is therefore unsure whether in practice implementation would better facilitate the achievement of the relevant objectives. In particular, Transco is not yet convinced that bringing a more formal level of Network Code governance is necessarily an appropriate step to take. However, it does believe that procedural documents that Users find relevant should be readily available on the relevant Transco website.

4. The implications for Transco of implementing the Modification Proposal , including **a) implications for the operation of the System:**

Transco has not identified any implications for operation of the System.

b) development and capital cost and operating cost implications:

Transco believes there could be potentially be significant cost implications inherent in adopting this Modification Proposal. Were a large number of documents to form part of the code administrative processes, significant additional resources might need to be given both to modifying such documents and the associated consultation processes.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Transco would need to consider the recovery of any costs that would be associated with the implementation of this Proposal.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco is unaware of any consequences implementation would have on price regulation.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco believes that any such consequence would be minor.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco believes that any such implications would need to be further explored.

7. The implications of implementing the Modification Proposal for Users

Users' involvement in the process would be more formal than now - either through the Network Code Committee or a formally constituted Sub Committee. If the revised consultation process led to better designed procedures, Users would benefit accordingly. However, there is a risk that industry time could be wasted if overly formal processes were put in place.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Involvement in the process of these parties would be more formal than now - either through the Network Code Committee or a formally constituted Sub Committee. If the revised consultation process led to better designed procedures, these parties might benefit accordingly.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is unaware of any such consequences.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Transco has identified the following advantages of implementation:

- Greater assurance to Users that procedures would only be introduced or amended with Network Code Committee support.
- Potentially greater visibility of procedures as a result of web site publication.

Transco has identified the following disadvantage of implementation:

- The costs of this proposal could be significant, in terms of the additional administrative burden on Transco in maintaining these documents and on Transco and the Industry in relation to the consultation process..
- The criteria for defining what should or should not be included on this list is currently insufficiently defined and a too broad an implementation might inhibit development of procedures that would bring benefits to the industry.
- A more formal constituted Network Code Sub Committee might not encompass the breadth of experience typically encountered in Network Code Workstreams, where at present some of these procedures are reviewed. This may impact on the quality of the final document.
- There might be potential for conflict between the requirements of Transco's licence and the decisions of the Network Code Committee.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco invites representations

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Transco is unaware of any such requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is unaware of any such requirement.

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco would need to instigate a programme of works to explore further the administrative processes that would be associated with implementation of this Proposal and their associated costs.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation of this Proposal could take place shortly following approval.

16. Recommendation concerning the implementation of the Modification Proposal

Transco wishes to review the representations before formally making any recommendation. However, at this stage, it is opposed to this Modification Proposal.

17. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Richard Court
Commercial Frameworks Manager
NT & T

Date: