

Modification Report
Suspension of Smaller Supply Point AQ Amendments for 2003
Modification Reference Number 0614
Version 2.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

Transco continues to calculate the Provisional AQ for all Supply Points and notify Users within current timescales.

Users can submit amendments for Larger Supply Points (LSPs) and any meter crossing the SSP/LSP threshold in either direction. Users cannot submit amendments where the AQ remains in the SSP market. Transco will reject any SSP to SSP amendments.

Manifest errors can be identified and amended by Users as part of the threshold crosser analysis. Any SSP AQs that move above the 73,200 kWh threshold (and visa versa for LSPs) will be captured in this analysis.

Users will be reliant upon Transco's provisional AQs for meters that remain in the SSP market.

2. Transco's Opinion

Transco is of the opinion that this Modification Proposal should not be implemented for the following reasons:

- It is inconsistent with the view expressed at the AQ sub-group by Users and Transco that Provisional AQ amendment activity should be permitted subject to introduction to the Network Code of the AQ amendment governance criteria described below.
- There would be no opportunity for Users to request a SSP AQ amendment (with the exception of 'threshold crossers') regardless of the extent to which the Provisional AQ is incorrect. Transco believes that this would be a particular concern for Users taking ownership of a Supply Point which has had a Provisional AQ calculated on the basis of erroneous meter read or asset data previously provided to Transco by the 'outgoing' User.
- Could give rise to increased risk to Users through Commodity, Capacity RbD Billing and Energy Balancing and removes the benefits arising from a simplified RbD mechanism.

The Annual Quantity (AQ) sub-group of the Supply Point & Billing Workstream has recently addressed the requirements of the 2003 Smaller Supply Point (SSP) AQ review. The sub-group identified a number of changes regarding the AQ amendment activities currently undertaken by Users. Sub-group members have identified a series of measures designed to ensure the Network Code reflects the circumstances in which amendment of the Provisional AQ provided by Transco

as part of the review process may be requested. Following completion of legal drafting, Transco has undertaken on behalf of sub-group members to raise an Urgent Modification Proposal to incorporate the relevant provisions within the Network Code prior to the commencement of the 2003 review.

Transco believes that the measures identified by the AQ sub-group are the most appropriate changes to the AQ process for this and future years reviews.

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

The AQ review process defined within the Network Code allows Users to amend a Provisional AQ where circumstances permit. To introduce a regime whereby SSP AQ amendments would not be permitted in any circumstances would prevent a Registered User from ensuring that AQs within its portfolio reflect the anticipated consumption of the Supply Point. In Transco's view, this would not be consistent with its requirement to operate the pipelines efficiently and economically. Therefore, Transco believes that this Modification Proposal does not better facilitate its GT Licence Relevant Objectives.

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

No such implications have been identified.

b) development and capital cost and operating cost implications:

No such implications have been identified

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:

Not applicable.

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

No such consequences have been identified.

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 is not aware that any additional contractual risk would be introduced if this Modification Proposal were implemented

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

There are no such implications for Transco. It is possible that Users would need to alter their computer systems to accommodate implementation of this Modification Proposal.

7. The implications of implementing the Modification Proposal for Users

It is likely that Users would need to review relevant processes to accommodate implementation of this Modification Proposal. There is a risk of overbilling Users having Smaller Supply Point portfolios through inflated SSMP AQs and inappropriate charges to a shippers SSP portfolio share impacting RbD. Simplification benefits under RbD would be removed with the need for Users to validate all meter consumptions arising from meter reads and asset data submitted to Transco or face an inflated AQ which would not be amendable.

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

This Modification Proposal only impacts Transco's Network Code and could therefore introduce non-alignment with CSEPS increasing administration costs for Users and suppliers.

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

No such consequences have been identified.

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

Advantages:

- The proposer claims that implementation would provide a level of certainty during the 2003 SSP AQ review given that a stage whereby AQs may be challenged and changed is removed.

Transco's response: Transco and members of the AQ sub-group are of the view that the volume of AQ revisions should be minimised. Transco has stated that it intends to raise a Modification Proposal which would permit AQ revisions, but only in certain circumstances. This solution would permit the 'level of certainty' that the Proposer views as an advantage while allowing significantly 'incorrect' AQs to be corrected. Transco believes this course of action is preferable to preventing all SSP AQ revisions.

- The proposer claims that risks to RbD and energy allocations would be reduced.

Transco's response: Transco believes that implementation of this Modification Proposal would increase such risk given that there would be no opportunity for the User to challenge a SSP AQ calculated on the basis of incorrect data.

- The proposer claims that last minute costs associated with system and process development for the 2003 AQ review would be avoided.

Transco's response: Transco believes that any costs incurred as part of the AQ review process (taking into account any such costs which may be incurred as a consequence of the AQ sub-groups intention to seek enhancement of the AQ amendment provisions as indicated above) outweigh any advantage arising as a consequence of suspending the 2003 AQ amendments process.

- The proposer claims that a temporary solution for the 2003 review would be provided to afford adequate time to review the rules associated with the amendment phase and undertake a wider review of the RbD process.

Transco response: Transco believes that the AQ amendment rules have been adequately reviewed within the AQ sub-group and appropriate rules scoped as a prerequisite for the 2003 AQ review. These formalise Ofgem 'guidance' issued during previous AQ reviews. Transco does not believe that a 'temporary solution' is necessary to permit the 2003 review to proceed. Transco supports measures to consider the wider RbD issues and intends to raise this matter within the appropriate sub-group.

Disadvantages:

- Suspension of the SSP AQ amendment phase for 2003 removes the opportunity for the Registered User to challenge a Provisional AQ provided by Transco which may have been calculated based on erroneous data.
- Experience from previous SSP AQ reviews has shown that in the majority of cases, where the AQ has recalculated as a consequence of a data error, the Provisional AQ value has increased substantially within the SSP threshold. Unless the opportunity to amend an incorrect AQ is available, there is the potential that where a process is based on aggregate SSP AQs, such as LDZ NDM demand allocation and certain invoicing activities, the share borne by a User may not reflect the 'true' position.
- Suspension of the SSP AQ amendment phase for 2003 would be inconsistent with a range of measures developed by the AQ sub-group of the Supply Point & Billing Workstream governing the 2003 AQ amendment process.

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

Seven representations were received with respect to this Modification Proposal six of which were opposed to its implementation and one of which was supportive.

A number of common themes were forthcoming within respondents views which are described as follows:

All seven respondents comment on the implications of preventing Users from challenging any Smaller Supply Point Provisional AQ. Scottish & Southern Energy (SSE) claims that "Users do have an opportunity to amend manifest errors. These will cross the 73,200 kWh threshold,

incorrect provisional AQs that remain within this threshold are unlikely to have a material impact on the shippers' overall share of the aggregate AQ". British Gas, however, states "if this proposal were to be implemented Users would be unable to challenge any AQ for a smaller supply point (<73,200 kWh pa) unless the AQ revision caused this threshold to be exceeded. Although an error of this scale may be relatively small in absolute terms for a single supply point, the effect in percentage terms across the 19 million smaller supply points on the system would lead to significant errors in demand forecasting and transportation charges. This would cause a major distortion in costs and exposures experienced by individual Users".

Transco supports the view expressed by British Gas.

Total Fina Elf Gas & Power Ltd comments "we are in agreement with the opinions expressed by Transco in the Draft Modification Report and in particular that the inability to allow SSP AQ amendments under any circumstances would prevent a Registered User from ensuring that AQs within its portfolio reflect the anticipated consumption of the Supply Point". Scottish Power observes that ".....if this Modification is implemented, it will serve to cement the benefits derived by the gaming shipper or shippers for yet another gas year". Scottish Power further states "we believe that such cementation should not be allowed and that instead the industry should be concentrating efforts to address both the process shortcomings that allowed this situation to occur and to address the historic and ongoing financial consequences for other suppliers". Powergen comments "removing the ability to request AQ amendments at all is an unnecessarily blunt approach to protecting RbD. By utilising appropriate tolerances we can remove much of the amendment behaviour resulting from read window manipulation or extra consumption history. However, legitimate amendments (where meter asset data has not been updated or is wrong on the shipper' database) which might correct for a tripled AQ (20kWh to 60kWh) would not be picked up in the threshold crossers analysis. This is because it remains in the DM portfolio, despite being a manifest error". Powergen further highlights "A genuine misread or data problem should be allowed to be addressed, for example, would a metric or imperial x 3 difference or a meter read, usually a power of 10 out, result in a change less than 20%? In addition, we would not be comfortable being left at the mercy of Transco's provisional AQ without the ability to amend. Smaller shippers may feel the pinch if a proportion of their portfolios AQs is incorrect and detrimental, without being a manifest error. The AQ sub group managed to come to agreement of a 20% change tolerance, and Powergen believe that this is the best route". Innogy comments that if the proposer of the Modification or any other shipper is unable to manage their AQ review this year, they have the option of simply accepting the AQs submitted to them by Transco. In the event they do this they will be in no different position than if they had done this in any AQ review year. London Electricity Group comments "If this modification were to be implemented it would not provide Users with the opportunity to amend SSP AQs where they were based on erroneous meter data and thus would not benefit Transco nor the User". London Electricity group states "this creates the possibility that a greater amount of incorrect AQs could filter into Transco's systems and processes affecting for example their demand estimations for the next gas year".

Transco concurs with the views expressed by all of the above respondents.

Five respondents note that the topic of considering how AQs should be best derived in the future has been discussed within the AQ sub-group of the Supply Point & Billing Workstream, resulting in the raising of Modification Proposal 0624. Innogy states that "the views expressed in this Modification Proposal were discussed at the AQ sub-group and with the exception of the proposer of the Modification, they were emphatically rejected". Scottish Power notes that "we have been working with Transco and the Shippers in the AQ strategy group to try and address these process weaknesses going forward". It further comments that "we do not support this Modification Proposal as it is not in line with the recommendations of the sub-group". British Gas notes "we have been actively involved in the recent work of the AQ sub-group that has resulted in proposed improvements to the 2003 AQ process within Modification Proposal 0624. In our view the proposal to make minor amendments to the process is far preferable to suspension of the ability to challenge the outcome of Transco's processes for 2003". Innogy comments that ".....the uncertainty referred to in the proposal has been clarified through the raising of Urgent Modification Proposal 0624. If a decision is taken on this proposal in accordance with the proposed timetable, shippers will in our opinion have sufficient time to adapt their processes and systems to manage the AQ review for this year, making suspension unnecessary". London Electricity Group comments that the Proposal ".....overrides certain agreements and decisions agreed at appropriate SPB Workstream meetings". It comments "we understand that the issues surrounding previous years AQ reviews and the effect of erroneous AQ appeals have been discussed in the Annual Quantity (AQ) sub-group of the Supply Point & Billing (SPB) Workstream where it was agreed a certain number of changes which Transco were to address via a Modification Proposal. We believe that this is the best way to address the issues surrounding the AQ review process".

Transco concurs with all of the above views.

Scottish & Southern Energy (SSE) challenges Transco's opinion that the Modification Proposal is inconsistent with the view of the AQ sub-group. SSE claims that the view expressed by Transco represents a subset of the sub-group. SSE further suggest that "members of the sub-group have not had time to discuss or digest fully the proposals made in Modification Proposal 0614 when forming their opinion". Transco does not agree with the views of the respondent. Transco believes that the sub-group has exhaustively discussed the topic including a proposal made by SSE in that forum that the amendment phase for the 2003 AQ SSMP review should be suspended. Transco did not record any significant support for SSE's suggestion. SSE states "We are concerned that Transco's alternative urgent Modification Proposal 0624 introduces considerable additional uncertainty and increases the costs of managing and policing the whole process with little benefit over the proposal outlined in this modification". Transco does not agree with this view.

Scottish & Southern Energy (SSE) expresses concern with regard to ensuring that this Modification Proposal is considered by Ofgem at the same time as Modification Proposal 0624. SSE note that this Proposal is an alternative, not complimentary solution. Transco supports this view.

Three respondents refer to the review of AQ related activities and impacts. Scottish Powers states "we do not agree with the mod assertions that the AQ Review process is costly to

administer. We would however stress that there is a real danger that any benefit to the industry, of not having to determine small supply point costs based on actual throughput, is being outweighed by the uncontrollable and unquantifiable risks of gaming. That said, we fully support the idea of a fundamental review of how AQs should be derived in the future and as such believed that we working within the AQ Strategy Group to achieve this. It is with great disappointment that we have found that not all Shippers have been attending said workgroup with the same intention. We would suggest that if the AQ Review process is not overhauled to ensure that gaming opportunities are removed, that the whole ethos of RbD charging should be re-visited. We will be continuing to urge Ofgem to investigate the current situation and are still looking at what modifications can be produced to address the historic and on-going mis-allocation of costs. It is however our intention that such modifications would be raised with the full consultation of the AQ Strategy Group, as this comprises those individuals best placed to assess such proposals". British Gas comments "we are supportive of the review of the processes around the annual AQ Review, being carried out under Modification Proposal 615, which may identify further proposals for improvements. However, we do not believe that it is necessary to suspend the amendment stage of the process whilst this review is conducted".

Scottish & Southern Energy comments that "concern has been raised by the industry over the activity within amendment phase, however, it should be recognised that such activity is symptomatic and not causal – and it will continue while the opportunity to amend remains and until the underlying cause is addressed. The underlying cause, we believe, lies within the Demand Allocation and RbD processes due to the increased importance of the AQ. In order to address the industry concerns therefore, a fundamental review of Transco's AQ methodology should be undertaken to minimise the requirement to amend individual meter point AQs. In recognition of this wider need, this modification represents a temporary solution for 2003. A longer term solution, as set out in our Review Proposal 615, would need to focus not on the Review Process but on the role played by the AQ within the settlement process and whether the AQ calculation methodology itself is fit for this purpose. It needs to provide shippers with the comfort and assurances that the AQ calculation/review process run by Transco is accurate at a portfolio level and that any discrepancies in individual meter point AQs are inconsequential when allocating demand. Special consideration needs to be given to the AQ calculation methodology, as this was not revised following the introduction of RbD despite its increased importance. It is relatively simple in that a single demand profile and weather sensitivity are assumed for all customers under 73,200 kWh in each LDZ. As a result at a meter point level it is extremely unlikely to produce an accurate estimate of demand. This will cause volatility in the calculated AQ when using different read periods (as between Transco and Shipper through the amendment phase, or over different times of the year), and may lead to biases being introduced depending on the customer mix".

Transco is sympathetic to the views of the above respondents. Transco is committed to the ongoing review and scrutiny of relevant AQ related processes and will be ensuring the constituent components of Review Proposal 0615 are addressed by the appropriate Workstream sub-group in the near future.

Scottish & Southern Energy comments that ".....manifest errors will continue to be picked up as Threshold Crossers and can still be amended. However, the proposal also recognises that, within

the SSP market, accuracy at a meter point level is not essential. Instead, overall accuracy between shipper portfolios is sought – an important concept that was introduced into the settlement process by Reconciliation by Difference (RbD)" SSE also states "in accordance with the introduction of RbD, Shippers should not need to focus on meter point accuracy - the AQ calculation/review process, as run by Transco, should in itself be sufficiently accurate for the purposes of demand allocation with any errors netting out and show no systematic bias" Transco does not believe that this Modification Proposal ensures overall accuracy between User portfolios given that Users having significant numbers of Smaller Supply Meter Points (SSMPs) would have no opportunity to seek amendment of an erroneous SSMP AQ within its portfolio if the Larger Supply Meter Point (LSMP) threshold is not crossed.

SSE states "there is a danger that if shippers continue to focus on meter point accuracy by way of the AQ amendment phase, the intended benefits of RbD will be undermined. At present, and under Transco's alternative Modification Proposal 0624, the costs of individual meter point reconciliation are, in effect, being replaced by the costs of managing an individual meter point AQ Review. In other words, the cost of individual meter point reconciliation has not been removed entirely, rather it has transferred elsewhere within the process. Furthermore, it is clear that this has shifted the relative burden of costs and risks from Transco onto domestic Shippers, and will inevitably be passed onto the end consumer". Transco does not agree with this view. Transco believes that the workload involved in the AQ process is in no way close to that which would have been required if Users were undertaking individual meter point reconciliation.

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

Implementation of this Modification Proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

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

Implementation of this Modification Proposal is not required to facilitate any such change.

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

No program of works would be required as a consequence of implementing this Modification Proposal.

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

In view of Transco's recommendation, no implementation timetable is proposed.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation of this Modification Proposal.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal not to modify the Network Code and Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Transco does not recommend implementation of this Modification Proposal. Legal text has therefore not been provided.

Signed for and on behalf of Transco.

Signature:

Terry Grove
Service Delivery Manager

Support Services

Date: