

Modification Report
Application of SO Commodity Charges to all NTS Loads
Modification Reference Number 0532

Version 1.0

This 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

1.1 The Original Proposal

Modification Proposal 0532 was raised following Ofgem's decision not to veto Transco's Pricing Consultation Proposal 70 (PC70).

The stated objectives of PC70 were that:

- the NTS Standard Commodity Charge be replaced by a System Operator (SO) Commodity Charge;
- the SO Commodity Charge be based upon target SO revenue; and
- the SO Commodity Charge should apply to all gas transported through the NTS, irrespective of the type of end load.

A particular change was that the SO Commodity Charge would be applied to gas off-taken at Storage Facilities. Transco also welcomed views on whether it was appropriate to continue with the optional commodity charge in its present form; whether it should now be reconstituted in a different form or removed altogether; and whether the SO Commodity Charge should be distance-related rather than a standard charge. Whilst a range of views were expressed on the Pricing Proposal and some comments were received on the distance-related issue, Ofgem decided not to veto PC70 and expressed its own views in an accompanying paper. One view expressed by Ofgem was on the aspect of splitting the SO Commodity Charge revenue between exit and entry. Ofgem reached the conclusion that whilst this would be desirable, systems implications would prevent its implementation prior to October 2002.

This Modification Proposal therefore proposes that the SO Commodity Charge be levied on the same basis with respect to all sites. This Modification Proposal originally suggested that the SO Commodity rate be applied to User Daily Quantity Outputs (UDQOs). Providing no User had made an entry nomination (i.e. associated with storage withdrawal nomination) on the same day, the sum of UDQOs would equal the physical quantity of gas off-taken at the storage site. It was believed that even if there were entry nomination(s) in respect of the storage facility's entry point, applying the SO Commodity Charge would still better achieve the relevant objectives.

1.2 Workstream Development - The Four Alternatives

Following development of the original Proposal by the Energy & Capacity Workstream, views are invited on the following four alternative principles for

applying the SO Commodity Charge, which Workstream members developed to be consistent with the objectives of PC70.

To demonstrate the differences between these four alternatives, the same flow example and UDQOs and UDQIs have been used. For the first half of the Gas Flow Day the Storage Facility was assumed to be in injection mode and for the second half, in withdrawal mode.

Flows in/out of Storage Facility:

06.00 - 18.00 300 (Injection)

18.00 - 06.00 150 (Withdrawal)

Net flow: 150 (Injection)

Alternative 1: Allocating the Commodity Charge on the basis of UDQOs without any adjustment.

Calculations: General

Step 1

Apply to the UDQO of each User "u" the SO Commodity rate (SOCR)

$$SOCC_u = SOCR * UDQO_u$$

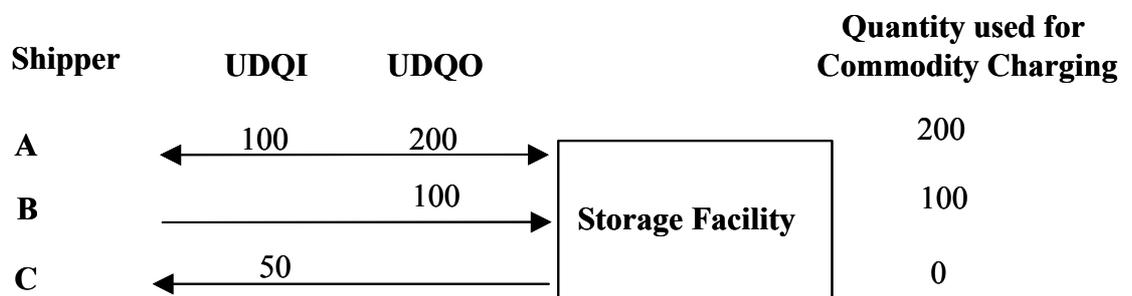
Step 2

Total SO Commodity Charge income (SOInc) is therefore the sum of each Users' SOCC

$$SOInc = \sum SOCC_u$$

For the same value of SOCR, this alternative would be expected to yield the most SO Commodity Charge revenue. In order to retain the principle of this revenue meeting a defined target level, the value of SOCR would be set at a slightly lower rate during the following year. This would ensure that all four alternatives yielded the same revenue.

Calculations using the formulae defined above:



Step 1

Shipper

A $SOCC_A = SOCR * 200$

B $SOCC_B = SOCR * 100$

$$C \quad SOCC_c = SOCR * 0$$

Step 2

$$SOInc = SOCR * (200 + 100 + 0) = SOCR * 300$$

The advantages, disadvantages and other features identified by the Workstream were as follows:

Advantages

- Simple
- Consistent with Energy Balancing Cash-Out
- Consistent with treatment of Interconnectors

Disadvantages

- Not reflective of actual flows into/out of storage
- May discourage use of storage facilities due to increased costs for storage users
- Discriminatory - storage users would subsidise non-storage users

Other Features

- Redistributive effect on charges for following SO charge period(s)

Alternative 2: As Alternative 1, but a rebate would be paid to Users who were withdrawing gas from storage on that Gas Flow date.

Calculations: General

Step 1

Apply to the UDQO of each User "u" the SO Commodity rate (SOCR)

$$SOCC_u = SOCR * UDQO_u$$

Step 2

Determine the rebate applying to each User (SO rebate) by applying the SOCR to the UDQI

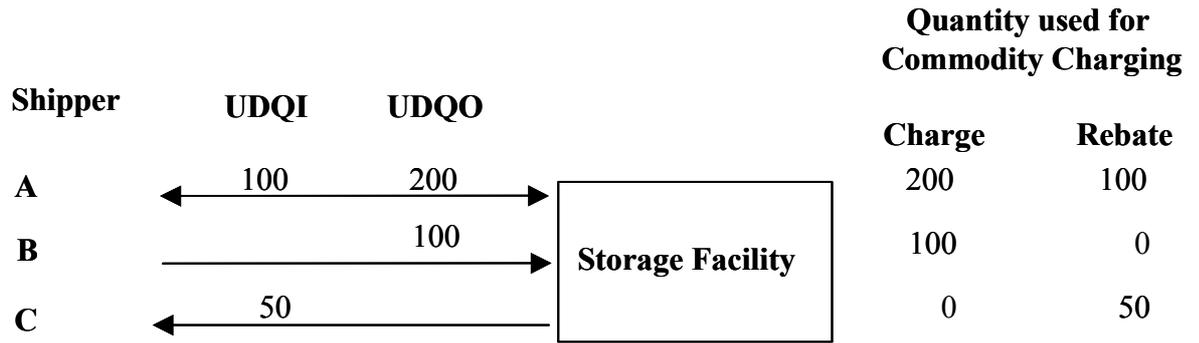
$$SOrebate_u = SOCR * UDQI_u$$

Step 3

SOInc is, in this case, the sum of each User's SOCC calculated in Step 1, minus the sum of each User's SO rebate calculated in Step 2

$$SOInc = \sum SOCC_u - \sum SOrebate_u$$

Calculations using the formulae defined above:



Step 1

Shipper

$$A \quad SOCC_A = SOCR * 200$$

$$B \quad SOCC_B = SOCR * 100$$

$$C \quad SOCC_C = SOCR * 0$$

Step 2

$$A \quad SOrebate_A = SOCR * 100$$

$$B \quad SOrebate_B = SOCR * 0$$

$$C \quad SOrebate_C = SOCR * 50$$

Step 3

$$SOInc = SOCR * (200 + 100 + 0) - SOCR * (100 + 0 + 50) = SOCR * 150$$

The advantages, disadvantages and other features identified by the Workstream were as follows:

Advantages

Reflects actual flows

Disadvantages

Encourages gas counter flows (the view of some Workstream participants only)

Uncertainty about costs as a result of within day variation of nominations

Individual Shippers not charged in proportion to their physical flow

Inconsistent with the treatment of Interconnectors

Discriminatory - storage users withdrawing on a Gas Flow Day would be subsidised by those who were injecting on the same Gas Flow Day

Other Features

Payment of rebates is a Transportation Charging Methodology issue that would require further pricing consultation

Alternative 3: Users injecting gas into storage on that Gas Flow Day would be charged pro-rata in accordance with net physical flow into the Facility.

The following alternative was developed during two Workstream meetings: a three-step calculation process that would determine the net physical flow, and which would be allocated to Shippers who, in net terms, were injecting on that Gas Flow Day:

Calculations: General

Step 1

Determine the net quantity injected into storage (NQINJ) on that gas flow day from the quantity injected (QINJ) and quantity withdrawn (QWITD) (where there is a net withdrawal, set NQINJ to zero).

$$NQINJ = \text{Max}((QINJ - QWITD), 0)$$

Step 2

Determine for each User, the UNQINJ from its UDQO and UDQI. (If a User's UDQI exceeds its UDQO this should be set to zero)

$$UNQINJ_u = \text{Max}((UDQO_u - UDQI_u), 0)$$

Step 3

Calculate the SOCC for each User by applying the product of the SOCR and the net quantity injected to the share that User holds to all "n" Users allocated a positive UNQINJ on that gas flow day at that storage facility.

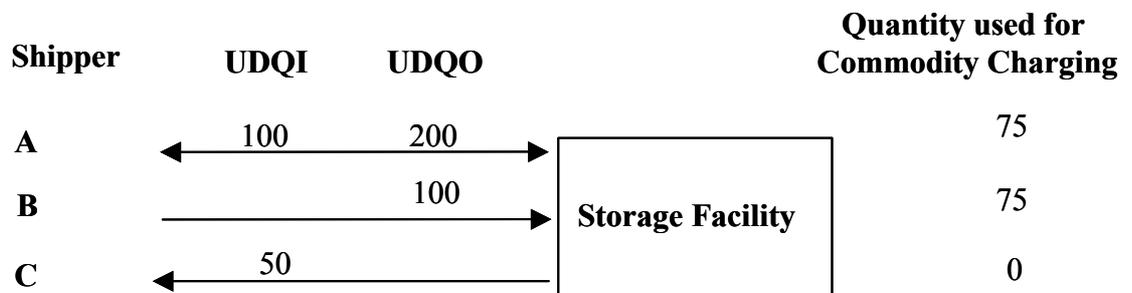
$$SOCC_u = SOCR * NQINJ * \frac{UNQINJ_u}{\sum_{i=1}^n UNQINJ_i}$$

Step 4

The SOInc is the sum of each User's SOCC

$$SOInc = \sum SOCC_u$$

Calculations using the formulae defined above:



Step 1

$$NQINJ = \text{Max}(300 - 150, 0) = 150$$

Step 2

Shipper

$$A \quad UNQINJ_A = \text{Max}((200 - 100, 0) = 100$$

$$B \quad UNQINJ_B = \text{Max}((100 - 0, 0) = 100$$

$$C \quad UNQINJ_C = \text{Max}((0 - 50, 0) = 0$$

$$\Sigma UNQINJ = 100 + 100 + 0 = 200$$

Step 3

Shipper

$$A \quad SOCC_A = \text{SO Charge} * 150 * 100/200 = 75$$

$$B \quad SOCC_B = \text{SO Charge} * 150 * 00/200 = 75$$

$$C \quad SOCC_C = \text{SO Charge} * 0 * 100/200 = 0$$

Step 4

$$SOInc = SOCR * (75 + 75 + 0) = SOCR * 150$$

Advantages

Reflective of actual flows

Disadvantages

Uncertainty about costs as a result of within day variation of nominations

Inconsistent with treatment of Interconnectors

Discriminatory - storage users injecting on a Gas Flow Day would be subsidised by those who were withdrawing on the same Gas Flow Day.

Alternative 4: The Storage Operator would notify Transco of the allocation for each Gas Flow Day which Transco would accept, providing the sum of these equalled the net flow into the storage facility.

Calculations: General

This would be determined by arrangements agreed between the Storage Operator and its customers. Transco would conduct the following check calculations:

Step 1

Apply to each User's quantity allocated by the Storage Operator (QAlloc) the SOCR

$$SOCC = QAlloc_u * SOCR$$

Step 2

Determine the NQINJ from the QINJ and QWITD - where there is a net withdrawal, set NQINJ to zero.

$$NQINJ = \text{Max}((QINJ - QWITD), 0)$$

Step 3

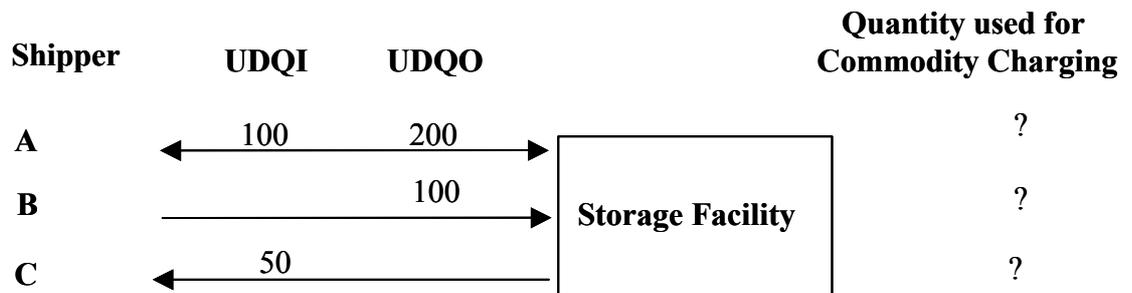
Check that NQINJ equals the sum of User's QAlloc

If (CNQINJ = ΣQAlloc, True, False)

The Storage Operator would be notified if this was not the case.

Step 4

$$SOInc = SOCR(200 + 100 + 0) = SOCR * 300$$



As the allocated quantities are unknown, calculations are not provided for this alternative.

The advantages, disadvantages and other features identified by the Workstream were as follows:

Advantages

- Responsibility vested in those using the System for storage injections/withdrawals
- Would facilitate the development of innovative services by Storage Operators

Disadvantages

- Lack of transparency
- Inconsistent with treatment of Interconnectors

Other Features

An alternative approach would be to charge the Storage Operator and allow for recovery in storage charges. This would, however, only be possible under present Network Code rules if the Storage Operator was a licensed Shipper.

1.3 Workstream Conclusions

- After evaluating all four Alternatives the Workstream concluded that Alternative 3 was preferable. It is therefore this alternative that is used as a basis for the legal text detailed in Section 17 of this Report.
- The Workstream identified that for a number of alternatives inconsistency may exist between the treatment of Interconnectors and storage facilities. Respondents were invited to address this issue.
- It was also pointed out that the optional commodity charge should apply to storage injections and withdrawals and this was part of the agreed conclusion to PC70. Transco did not believe that an amendment is required

to the Network Code in order to achieve this element of consistency between Storage Connection Points and other NTS Exit Points.

- Transco agreed to draw attention to Modification Proposals 0545: "Application of SO Commodity Charges to Storage Facilities" and 0547: "Reconciled SO Commodity Charges at Storage Facilities" that proposed two further alternative methods of allocating the SO Commodity Charge to gas leaving the System at Storage Facilities. To assist the process, Transco simultaneously issued all three draft Modification Reports for consultation.
- Transco also agreed to request that respondents consider any implications arising from Transco's Pricing Consultation 73 (PC73). This proposed that the SO Commodity Charge be applied to both entry and exit points.

2. Transco's Opinion

Transco does not favour Alternative 2 as it would not appear to confer any advantages over and above the other alternatives and agrees that a Transportation Charging Methodology change would probably be required to support its implementation. Whilst noting the Workstream's preference for Alternative 3, Transco invited representations on all alternatives. From the standpoint of cost reflectivity, Transco favours charging based upon daily quantities rather than net flows delivered over a longer period and notes that all four alternatives embody this principle.

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

The benefits of removing the distinction between commodity charging at storage sites and other exit points have been discussed in PC70 and the subsequent representations and report. Removing the distinction would institute a common charge rate that would better reflect the costs incurred by Transco in transporting gas to NTS exit points. In general, these costs are independent of the nature of the site concerned. Transco believes that this is consistent with facilitating the achievement of the efficient and economic operation by Transco of its pipeline system.

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 the operation of the System.

b) development and capital cost and operating cost implications:

Transco would incur costs in amending its UK-Link System. The extent of these costs has not been identified at this stage. It has, however, been identified that Alternative 3 would require more detailed systems development than Alternatives 1 and 4.

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 does not propose any specific cost recovery mechanism.

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

With the exception of Alternative 2, Transco is not aware of any consequences this Proposal would have on price regulation. Alternative 2 could only be effective if a change to the Transportation Methodology was implemented.

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 does not anticipate that there would be any consequences on the level of contractual risk under the Network Code, as a result of implementation of this Modification Proposal.

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

Transco has identified that systems development would be required for both Users and Transco.

7. The implications of implementing the Modification Proposal for Users

It is likely that Users would need to alter their systems and processes to accommodate implementation of this Modification Proposal.

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

Transco has identified that the introduction of additional costs may have implications for the value placed on storage services by Storage Users.

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 does not anticipate any consequences on the legislative and regulatory obligations and contractual relationships of each User and non-Network party of implementing the Modification Proposal.

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

The advantages and disadvantages of each alternative are detailed in Part 1.2 of this report.

To summarise:

Advantages:

- Removal of potential discrimination between storage users and non-storage users.
- Consistency with PC70 decision.

Disadvantages:

- None of the alternatives acknowledge the benefit that Storage Services may provide to the System.

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

Modification Proposals 0532, 0545 and 0547 were issued simultaneously for consultation. Eleven representations were received in total. The following tabulates responses to Modification Proposal 0532:

Respondent	Response
SSE Energy Supply Ltd (SSE)	For
PowerGen UK plc (PG)	For
BP Gas Marketing Ltd (BP)	For
British Gas Trading (BGT)	For
AEP Energy Services Ltd (AEP)	Against
Shell Gas Direct (SGD)	Against
ScottishPower (SP)	Against
London Electricity plc (LE)	Against
Entergy-Koch Trading Europe Ltd (EKTL)	Against
Dynegy UK Ltd (DYN)	Against
BG Group (BG)	Against

In addition, a response was received from the Association of Electricity Producers after the consultation close-out period.

Cost reflectivity and discrimination

SSE confirmed its support for the principle of applying SO Commodity Charges to all NTS loads to avoid discrimination between different types of system users and to comply with the intent of the methodology adopted following Pricing Consultation (PC70): "Gas injected to and withdrawn from storage by a User effectively uses the transportation system on two separate occasions, and therefore it is more appropriate that the charges should be based on daily net flows, rather than on total gas flows over the Gas Year." SSE also asked how Transco proposed to apportion SO costs, or set the SO charge, as the SO charge itself is expected to be adjusted within year to reflect actual SO costs as well as the performance by Transco under its SO incentives. "In addition, it is probable that this mismatch would have redistributive effects between users depending on their usage of storage and we are not clear how this would fit with Transco's more general obligations in relation to revenue recovery and non discrimination."

BGT confirmed its support of "the principle to apply the charge to all flows" regardless of their origin or destination.

PG supported the Modification Proposal as "Storage Users make use of the Transco system to both transport gas from the beach to the storage facility and from the storage facility to customers. It is therefore difficult to argue on cost reflectivity grounds that such users should be treated differently from other users under the Network Code."

BP supported the Modification Proposal and "believe the implementation of this modification with enable more cost reflective charging for the use of the Transco pipeline, which until now storage facilities have been exempt from."

AEP did not support implementation of the Modification Proposal. AEP "believes that the current charging methodology does not meet the relevant objectives of leading to charges that reflect costs and facilitating competition between shippers and is in need of urgent review.....If implemented through the network code, we believe the current methodology could place Transco in breach of its licence obligation not to offer any commercial advantage to a shipper or supplier." AEP also argued that "If the NTS SO Commodity charge is levied either at entry or exit to the storage site (or both), storage users will effectively pick up the charge twice. As the bulk of these charges are not related to flows but benefit all users, this will lead to an effective cross-subsidy between storage users and other users. This could distort competition between shippers and discriminate unduly against shippers who use storage."

LE, which also did not support implementation of this Proposal, commented that "the cost of implementing the systems for calculating the associated costs of storage injections and outputs on a daily basis far outweighs the benefit of knowing these values and potentially undermines the economics of storage facilities."

The Association of Electricity Producers was broadly supportive of Alternative 1 of the Modification Proposal as it "reduces cross subsidies, discrimination between system users and maintains cost reflectivity" and has "the benefit of simplicity."

SP, whilst supportive of the principle of a commodity charge for all types of end-load, did not consider storage off-takes to be "end-load". SP was of the view that, whilst accepting the "main thrust" of PC 70, namely, "the creation of the SO Commodity Charge and its basis on target SO revenue", the community would prefer a re-consultation of this issue. SP reiterated its concerns over the implications for storage sites where a single shipper may withdraw and inject: "We believe these are smaller sites which are used to help shippers balance effectively and could be developed to provide storage facilities for multiple users." SP was of the view that "any proposal based on aggregate flows on single gas days where rebates are based on withdrawals against injection would be discriminatory when applied to these sites, since withdrawals and injection on the same gas days are much less."

EKTL did not support the Modification Proposal as it "does not provide an adequate solution to the application of the SO Commodity charge to NTS loads." It believed the Proposal "may have detrimental effects on the efficiency of the gas system by imposing too higher charges on users of storage sites."

DYN confirmed in its comments that whilst it "does not object to the principle of a storage charge being levied by Transco to reflect the costs arising as a result of administering the storage sites", such a charge should be related to the costs and benefits associated with storage sites. DYN believed that the charges would be made less cost reflective The "proposed methodology imposes charges on gas that Transco has not flowed" and would "discriminate against users of storage sites that have multiple users and in favour of single owner sites."

Transco's Opinion

Transco believes charging on the basis of daily flows is the more cost-reflective manner of charging.

Transco also considers that SO costs may arise on one day where gas is transported to a storage facility and similarly costs would arise on another day when that same gas is transported from the storage facility to another exit point. Charging on the basis of both these flows would therefore be cost-reflective.

Transco does not, therefore, agree that charging on the basis of all flows leaving Transco's system is less cost-reflective than the present situation, where the majority of flows into storage facilities is excluded. In fact, Transco believes the opposite is true and that this Proposal furthers the development of cost-reflective charging.

Benefits of Storage

SSE stated that "Whilst sympathetic to the arguments put forward that storage has the ability to provide national and locational gas services to Transco within a short delivery time, it is not unique in this regard and a similar case could be put forward for other NTS loads that could provide this service."

PG commented that the application of the new SO commodity charge under PC70 would reduce the value and the attractiveness of purchasing and investing in storage which seemed to be in direct conflict with Transco's regular concerns regarding the amount of storage available in the UK and fears that there is an increased possibility of severe supply problems on peak winter days. PG suggested that if these fears were valid "they are best dealt with through a specific charge (or rather credit) that is related to the "unique" benefits that storage brings to the overall system."

AEP believed "that storage sites should not pay the SO commodity charge. To the extent that Transco is able to demonstrate that flows at different exit points lead to different levels of costs being incurred (for example, associated with compressor costs), AEP believe that Transco could consider introducing a charge (or rebate) on all exit points reflecting these costs (or any costs avoided where flows reduce the need for compression). Other SO costs that are not

related to flows could continue to be recovered either at NTS exit point (excluding storage sites) or at entry and exit points under the current proposals out for consultation."

SGD did not consider that storage should be treated "specially" in respect to its impact on the system and its role in security of supply.

LE could not see any merit in any of the four proposed alternatives as they all ultimately propose a net charge to storage, which it believes is not justified. "The Modification does not reflect the value that storage facilities add to system balancing when entry capacity is constrained." LE, whilst recognising the cost targeting objectives proposed in PC 70 in applying the SO Commodity Charge to all gas transported through the NTS, did not feel that it should apply to all gas "irrespective of the type of end load". It believed that "storage facilities reinforce NTS energy balancing and without it Transco would witness a greater threat to security of supply and NTS linepack depletion/surplus than it currently experiences. To effectively impose a net charge on Storage may undermine its usage as an effective and efficient balancing tool for shippers and, therefore, its commercial viability."

SP stated that it "does not support this modification proposal, or any of the alternatives offered within it. We do not believe that any of these allow for the development of innovative storage products nor help the development of the UK storage market, which we believe in the long term will further the relevant objectives."

EKTL considered that "storage services do provide system benefits and these are greater than the benefits provided by demand side participants."

DYN believed that storage sites should be treated differently to reflect their unique nature and the costs they impose on the system. "With the government's focus on supply security, a more detailed examination of the regime and the development of cost reflective proposals that will encourage further investment in storage would seem to be timely." DYN suggested a separate consultation with the industry, on the treatment of gas flows into and out of storage sites, in order to acknowledge and incorporate the benefits of storage sites within Transco's charging methodology.

Transco's Opinion

Transco recognises the contribution that storage can make to ensuring gas is available to meet security of supply obligations. Transco also recognises that there may be merit in debate on the potential role of storage as contributor to security of supply and whether additional incentives to encourage storage development would be justified. However, it is not clear to Transco that a case has been made for seeking to incorporate any such incentives through the structure of the NTS SO Commodity Charge, which Transco believes should reflect the relevant objectives set out in its Gas Transporter Licence. These objectives suggest that Transco's charging methodology should be developed to reflect costs incurred by Transco rather than wider cost benefit considerations.

Interconnectors

SGD, whilst supportive of the principle to apply the SO commodity charge to all loads (including storage), did not support implementation of the Modification Proposal. SGD was of the opinion that none of the alternatives better facilitate Transco's relevant objectives. "With the exception of Alternative 1, all the alternatives outlined in the report are inconsistent with the treatment of interconnectors. Their implementation would be discriminatory between two sources of flexibility (in addition to producers). As such they undermine effective competition between shippers with the potential for winners and losers based on their usage of storage assets and the interconnectors."

BG was of the opinion that the introduction of this Modification Proposal would introduce an inconsistency with the treatment of flows through the interconnectors. BGT believed that "costs should ultimately be borne at the point of consumption by end user. This is in the best interests of price transparency and economic efficiency."

Transco's Opinion

Transco recognises that implementation of Alternative 3 for storage flows alone would lead to inconsistent treatment of storage and interconnector gas flows. The proposed legal text has removed this potential inconsistency.

Preferred Alternatives Within the Proposal

BP supported implementation of the Modification Proposal but did not indicate a favoured alternative. SP, SGD, EKTL, DYN and BG did not support any alternative.

Alternative 1

Until the outcome of the Pricing Consultation (PC73) is known, SSE commented that it found "it difficult to conclude which alternative of proposal 0532 we would prefer, as there could be further issues to consider"..... "in the meantime, Alternative 1 would better facilitate the relevant objectives "on the basis that it reduces an existing cross-subsidy, is less discriminatory between system users than the current regime, and maintains cost reflectivity."

The Association of Electricity Producers was supportive of Alternative 1.

SGD, whilst not supporting implementation of the Modification Proposal, stated that Alternative 1 "is attractive as it is consistent with that used for energy balancing cash-out and is consistent with the treatment of interconnectors" ... and "do not agree that it would be discriminatory in its effects."

Alternative 2

LE, whilst not supporting implementation of the Modification Proposal, believed that "alternative 2 has more merit than the other three."

Alternative 3

BGT stated that it strongly believed "that it should only apply to gas which has physically flowed". It therefore supported Alternative 3 "which provides a mechanism for apportioning the physical flows between all users having commercial flows contributing to the net or physical flow."

PG confirmed it "supports implementation of Alternative 3 as it represents the most equitable and practical method of implementing PC70."

Alternative 4

SGD also commented that Alternative 4 "has many attractions" although implementation "would be inconsistent with the treatment of interconnectors".

Transco's Opinion

Transco notes the support given to the various alternatives. The legal text, as proposed in this report, would provide consistency with Interconnectors and hence would meet a number of the objections raised.

Implementation Timetable

BGT commented that with regard to PC73, which addresses the application of SO Commodity Charges to both exit and entry flows, and PC70, implementation must be simultaneous. "To implement these two changes separately would introduce unnecessary volatility and uncertainty."

BP, in order to reduce tariff uncertainty, urged Transco "to delay implementation until there is certainty with regard to the outcome of PC73, any system changes could then be implemented in one release."

SSE additionally noted that as Alternatives 2 and 3 are likely to need at least a four month lead time for implementation, "storage users would in all likelihood not contribute to the recovery of SO commodity charges until summer 2003" and a potential cross-subsidy could occur. SSE requested clarification in the Final Modification Report on the potential extent of this. SSE concluded that "On balance, we believe that it is imprudent that Transco should amend its systems to implement a change that might become obsolete depending on whether or not PC73 is implemented."

SGD commented that "we are concerned about the piecemeal approach being taken to the development and implementation of the SO Commodity Charge." "We consider all the changes should be considered together to ensure that the full picture is understood by all parties. This may mean a delay to the implementation of some aspects of PC70."

SP did not believe "that this charge should be applied before the outcome and implementation of PC73."

BG continued to oppose the introduction of this element of PC70 and observed that a number of new issues had been raised by industry participants that were

not considered within the PC70 consultation. As this issue would have a "fundamental impact on the usage of Storage in the UK", BG stated a preference for Transco reconsidering the application of the Commodity charge element to Storage Injections, particularly as the consultation on PC73 was still outstanding.

Transco's Opinion

Transco agrees that there would be merit in aligning the implementation of this Modification Proposal with the implementation date for PC73, were that to be implemented. It does not, however, favour any deferral of the decision on implementation of this Modification Proposal.

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

Implementation 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

To enable the implementation of SO Commodity Charges to all NTS Loads from 2002, implementation of a Modification Proposal is required.

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

Systems development work would be required to enable implementation of this Modification Proposal.

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

Transco recommends simultaneous implementation with PC73, which Transco has proposed should be implemented with effect from October 2003.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends 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 to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

SECTION B: SYSTEM USE AND CAPACITY

Amend paragraph 3.5.3 to read as follows:

"

- (1) except where paragraph (2) applies, the amount of its....;
- (2) where a Connected Offtake System is connected to the System at the NTS Connected System Exit Point, and where there is a System Entry Point at the same location, an amount equal to:

$$\text{(QPHYS * UNQO / NQO) * CR}$$

where, in respect of the Connected Offtake System and in respect of a User whose UDQO's exceed its UDQI's for the Day:

QPHYS is the amount by which the measured quantity of gas flowing out of the System at the Connected Offtake System for the Day exceeds the measured quantity flowing into the System at the same location on the Day:

UNQO is the amount by which the User's UDQO exceeds the User's UDQI for the Day; and

NQO is the amount by which the aggregate sum of all Users UDQO's exceeds the aggregate sum of all Users UDQI's for the Day;

CR is the Applicable Commodity Rate."

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0532**, version **1.0** dated **24/07/2002**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.