

Final Modification Report
Modification Reference Number 0352

**“Cessation of certain transportation charges for isolated and withdrawn
DM supply points”**

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:

To remove section G3.2.3 from the Network Code which states that shippers remain liable for LDZ capacity charges and the capacity component of customer charges for a DM supply point with a status of isolated and withdrawn.

2. Transco's opinion:

The Network Code Section G3.2.3 currently states:

“Where a Supply Point Withdrawal becomes effective, by reason of Isolation of a DM Supply Meter Point comprised therein or in accordance with paragraph 3.2.6, in respect of a Supply Point which includes a DM Supply Point Component, the Withdrawing User shall continue to pay to Transco the amounts which would have been payable by the User by way of LDZ Capacity Charges and the Capacity Variable Component of Customer Charges in respect of the DM Supply Point Component if the User had continued to be the Registered User of the Supply Point, until:

(i) the 30th September following the Day before that on which the Supply Point Withdrawal became effective, or

(ii) if earlier, the Day before the Supply Point Registration Date in respect of a Supply Point

The application of capacity charges for daily metered (DM) supply points was discussed at a meeting of the SPA/Metering Workstream on 23 July 1998. Transco explained that the reason for applying certain capacity charges up to the end of the gas year was based on the principle that capacity charges cover the use of the system at peak although the charges are recovered over twelve months. During the original development of the Network Code, it was agreed that the start and end date for the notional year should be coincident with the end of the gas year and consequently, LDZ capacity related charges, even where the supply point is isolated and withdrawn, continue to apply up to the end of the Gas Year.

The group expressed concern over this residual charge being levied on shippers that had otherwise ceased to be the registered user of a supply point and expressed the view that it would be more economic and efficient to have consistency between the DM and NDM charging regimes.

In view of the mutual benefits this change would bring regarding IS development, particularly since Modification Proposal 0322, ‘Removal of isolated meter points from

demand attribution', has been signed by Ofgem and will be implemented shortly, Transco believes that the Network Code should be modified such that LDZ related capacity charges cease when a DM supply point becomes isolated and withdrawn.

Transco has addressed the impact of any potential loss of revenue and concludes that this has no material impact. This is based on its analysis of approximately 50,000 supply points in its isolation and withdrawn account of which four were found to have a supply point status of DM Firm.

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

LDZ capacity charges and the capacity component of customer charges in respect of DM isolated and withdrawn supply points will be charged to shippers in a manner consistent with the NDM regime. This process of simplification aids economic and efficient charging for gas transportation.

4. **The implications for Transco of implementing the Modification Proposal, including:**

a) **implications for the operation of the System:**

None identified.

b) **development and capital cost and operating cost implications:**

None 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:**

None 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:**

This proposal does not impact Transco's normal contractual risk.

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

Subject to implementation of this Modification Proposal, Transco plans to amend its UK-Link system to cease the application of LDZ capacity charges and the capacity variable component of customer charges in respect of a DM supply point component upon a supply point withdrawal becoming effective through isolation. It is anticipated that the above rationalisation of the DM charging structure will simplify Transco's and shipper's IT billing systems.

7. **The implications of implementing the Modification Proposal for Users:**

When a shipper withdraws from a supply point, which includes a DM component which has been isolated, it will cease to be liable for transportation charges. This is consistent with the NDM charging regime.

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

None identified.

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:**

None identified.

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

Advantages:

The application of LDZ capacity charges will be consistent throughout the NDM/DM market, that is to say that all charges will cease at the point of isolation and withdrawal.

Shippers will not be charged for LDZ capacity for periods where a supply point withdrawal has become effective through isolation.

The charging structure and supporting systems requirement is simplified.

Disadvantages:

None identified.

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

Five representations were received with respect to this Modification Proposal. Four respondents expressed support and one respondent registered its support for the underlying principles.

One respondent expressed its understanding that the intention was to apply this proposal to all DM sites. It, however, raises concerns regarding Transco's specific reference to DM firm sites in the Draft Modification Report which suggests that this proposal would not apply to DM interruptible sites. The respondent further clarifies that the capacity variable component charge applied to interruptible sites should not be levied upon isolation and withdrawal and notes that it will not have a material impact on Transco's revenue.

Transco's response is that the reference to DM Firm sites is for the purpose of demonstrating the materiality of the potential loss of revenue from implementing the Modification Proposal. Transco believes that as the LDZ capacity charge (ZCA) is the most significant of the two LDZ capacity charge elements, (ZCA and CCA), it would have been misleading to incorporate interruptible supply points in its analysis (for which the ZCA charge is not applied). Transco would, however, confirm that upon a supply point withdrawal becoming effective through isolation, all relevant LDZ charges will cease. This includes the capacity variable component of the customer charge which as the respondent correctly notes, applies to both firm and interruptible supply points.

One respondent commented that while the Modification Proposal will bring part of the DM regime into line with the methodologies applied to NDM supply points, there are inconsistencies between the DM and NDM transportation charging regimes and therefore it believes that this Modification Proposal has addressed only part of the transportation charging issue.

Transco's response is that the purpose of the Modification Proposal was to address an anomaly associated with the application of LDZ capacity related charges. The respondent raises concerns with regard to the DM NTS Exit Capacity regime which Transco contends is a separate and distinct issue. The respondent asks for clarification from Transco on how it intends to address 'discrepancies' between the DM and NDM transportation charging regimes as these 'should be the same in respect of NTS Exit Capacity charging'.

Transco considers that it would be appropriate to consider this issue as part of any wider review of the NTS Exit Capacity regime. However this is outside the scope of this Modification Proposal.

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

This proposal is not required to facilitate such compliance.

13. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:**

This proposal is not required to facilitate any such change.

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

Transco will be required to amend its UK-Link Billing system accordingly. There may also be an impact on shipper's systems.

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

Subject to direction being given, this Modification Proposal may be implemented with immediate effect.

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommends that this Modification Proposal be implemented.

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 Director General in accordance with this report.

19. Text:

Principal Document Section G.

Delete G1.7.20(c)

Delete G3.2.3: (Insert Not in Use).

Section B

B4.2.4 delete "Without prejudice to Section G3.2.3".

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Director General of Gas Supply and Electricity Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0352**, version **1.0** dated **04/10/99**) be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply and Electricity

Signature:

Director of Transportation Regulation

Date:

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

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

(i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") 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 Director 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.

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