British Gas
TransCo

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01/10/96

Dear Colleague,

Modification Proposal 0039

I attach a copy of the finalised "Application to the Director Seeking a View" for Modification proposal No 0039, "EUC Challenges" , which has now been sent to Ofgas.

Yours sincerely,

Julian Majdanski

Julian Majdanski
Deputy Secretary
Modification Panel

TRANSCO NETWORK CODE

FINAL APPLICATION TO THE DIRECTOR

SEEKING A VIEW REGARDING

MODIFICATION PROPOSAL REF 0039

1. Summary

TransCo is seeking the Directors' view as to whether Modification Proposal Ref 0039 should proceed to the development phase. This Application is made in accordance with Condition 7 (6) (d) of the Standard Conditions of Public Gas Transporters' Licences.

2. Modification Proposal

This Modification Proposal was received from National Power plc on 12 June 1996:- a copy is attached to this report for information.

3. Circumstances Leading to This Application

3.1 This Proposal was scheduled for initial discussion at the Modification Panel meeting held on 18 July 1996. Discussion was deferred to the 15 August meeting as National Power were unable to provide a representative to present the Proposal.

3.2 Mr D.Young of National Power attended the 15 August Panel meeting and gave a detailed presentation of the Proposal and answered questions from Panel members.

3.3 The Panel proceded to discuss the Proposal, in the discussion it was clear that a Unanimous vote either to proceed with or to reject the Proposal would not be forthcoming, with Panel members votes divided equally. Under the Modification Rules TransCo must then decide on the appropriate course of action.

3.4 For the reasons set out below TransCo, supported by a number of the Panel members, were of the view that the proposal should not proceed to development and stated that the Directors view would be sought as provided for under the PGT Licence.

4. Examination of The Proposal

4.1 This Proposal is aimed at introducing a process to allow appeal against a specific NDM site classification. This need stems form TransCo's use of mathematical models based upon the Annual Quantity for a site to generate the transportation charges. It is claimed that the resulting charges for some sites can be higher, or lower, than the incumbent shipper would expect by applying the same mathematical models to their own AQ information.

4.2 TransCo acknowledges that for NDM sites consumption data is imperfect and that the application of profiling models can and does result in charges which may be different from those derived from more accurate data. However the following arguments lead it to conclude that this proposal is not only inappropriate but would lead to a distortion of the "level playing field":

* The present arrangements were arrived at through a lengthy pre-Network Code consultation process during which all parties were in full knowledge of the impact this method would have.
* The inaccuracies are equally likely to be in the shippers favour as in TransCos.
* Shippers would not be happy for TransCo to increase the prices which are currently understated.
* An annual AQ process exists under present arrangements.
* The current calculations provide a level playing field with all shippers facing the same charges for the same site. To introduce an appeal process would give a few shippers competitive advantage when quoting to end users.

5. Summary of Shipper Representations

TransCo have circulated this Application (in draft) together with the original proposal, inviting representations from shippers and non Network Code parties. Six represntations were received, but only four were before the close out date of 25th September 1996.
National Power (the proposer), Pan Energy, Mobil Gas Marketing and Quadrant (received late) were supportive of the proposal.
United Gas Services Ltd and BGT (received late) were against the proposal.

All six representations are attached for information.

6. TransCo's Opinion

TransCo does not believe that this Proposal is in the interests of promoting transparent competition between shippers, in fact it may create unfair advantages to incumbent shippers. The impact of the current calculation is equally likely to be favourable as unfavourable in respect of any given site and therefore the net effect is for any inaccuracies to cancel out. To correct some sites but not others would produce a gross distortion of the pricing regime.

For the reasons stated, TransCo wish to reject this Proposal without proceeding to development and we seek the Director's view on this.

RG/JRM/1/10/96

Network Code Modification Request

It has become apparent that some of the data held on each shipper's portfolio and on the SPA Enquiry System does not agree with actual data held by the shipper or produced by the official MRA. In such instances it is impossible for gas suppliers or shippers to provide potential customers with quotations for gas supply that would be in accord with the actual site consumption parameters. The consumption profile derived parameters in question being the current ACQ and the Site Peak Daily Capacity. Both of these are in turn obtained from the ACQ and the Ratio of the winter to annual consumptions as defined in the Demand Estimation paper. The latter two parameters and the associated Exit Zone define the End User Category which has associated with it a Peak Day Scaled Load Factor (PDSLF) which is applied to the ACQ on the portfolio to produce the site Peak Day Capacity or MDQ.

The site capacity is the main factor in determining the transportation charges which are reflected in both the commodity and capacity invoices issued to the Shippers. The allocated MDQ is multiplied by the unit charge per peak day therm to arrive at the capacity charge the same situation also applying to the capacity related portion of the customer charges. In turn the charging rate is a logarithmic function of the PDSLF as is the LDZ commodity rate.

It can be seen that the PDSLF greatly influences transportation charges and if this is erroneously allocated as a consequence of flawed data then the transportation charges will not reflect that which is correctly due to the site. This has various consequences.

1. Customers with identical consumption profiles are subject to differential pricing within a given Exit Zone, which is discriminating against the customer leading to unfair competition.

2. Supply companies offering quotations for gas supplies cannot give accurate quotations without exposing themselves to undue risk.

3. In some instances shippers have refused to provide quotations due to the disparity in information between that submitted by the customer and that available on the SPA which is a mirror of the incumbent shippers portfolio. This therefore is a barrier to competition in the competitive gas market.

It is necessary to arrive at a situation whereby a valid appeal can be made to rectify a customers classification and backdate it accordingly to the start of the gas year in order that fair treatment to both the customer and the shipper can be assured.

It is therefore proposed that a NETWORK CODE MODIFICATION be introduced in order to promote transparency in anticipated transportation costs while removing discrimination against those end users who have erroneously allocated peak day capacities.

DAVID YOUNG, NATIONAL POWER PLC, GAS DEPARTMENT, 7/06/96.

David Young

RECEIVED. 12/6/96.
REF. No. 0039