

Service Development

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TO ALL SHIPPERS AND
NON NETWORK CODE PARTIES

Dear Colleague,

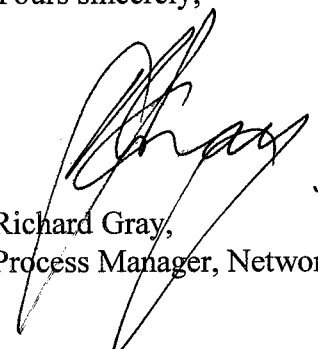
23 August 1996

Re - Modification Proposal Ref 0039 End User Category Challenges

I write to confirm that, following discussion at the last Modification Panel meeting, TransCo has decided to seek the Director General's agreement that this Proposal should not proceed to the Development Phase. A Draft Application for a View will be circulated for your Representations in due course.

Please contact me at the above address if you have any queries.

Yours sincerely,



Richard Gray,
Process Manager, Network Code.

TRANSCO NETWORK CODE

APPLICATION TO THE DIRECTOR FOR A VIEW.

MODIFICATION PROPOSAL REF 0039

1. Summary

TransCo is seeking the Directors' view as to whether Modification Proposal Ref 0039 set out below merits any further consideration. 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:

TEXT TO BE INSERTED

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 proceeded to discuss the Proposal, in the discussion it was clear that a Unanimous vote either to proceed with or to terminate the Proposal would not be forthcoming. 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 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 from 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. To introduce an appeal process would give a few shippers competitive advantage when quoting to end users.

ANYTHING ELSE?

5. 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.

6. TransCo's Intention

It is TransCo's intention to reject this Proposal without further work and seeks the Director's view on this intention .