Modification Report
Modification Reference Number 0228

This Modification Report is made pursuant to Rule 7.4 of the Modification Rules and follows the format required under Rule 8.12.4.

1. The Modification Proposal:

Balancing tolerances for VLDMCs (>50mtpa) are currently 3% while those for DMs are 8%. These tolerances were due to converge at 3% on 1 December 1997 but convergence was delayed until 1 June 1998 by Modification 0178a.

This issue was discussed at length as part of Review Group 0047, Imbalance and Scheduling Tolerances, prior to 1 December 1997, and was further discussed at the Energy Workstream on 9 April 1998. At this Workstream the majority of shippers agreed that DM supply points above 2 million tpa should converge to the previously agreed tolerance of 3% and DM supply points below 2 million tpa remain at 8%.

2. Transco's opinion:

Transco views all DM sites' convergence to 3% as desirable and the original intention in Code because tighter tolerances should encourage accurate and timely information flow between end users and shippers, incentivise accurate balancing, reduce system balancing actions, reduce the likelihood of extreme flexibility prices and lead to an overall reduction in neutrality costs. Transco demonstrated at the Energy Workstream that shippers can balance VLDMC and combined VLDMC/DM portfolios to within 3%.

The figures below demonstrate that cross subsidy in relation to those shippers needing to balance more accurately will be eliminated in respect of 14.54% of average system throughput and remaining cross subsidy will only apply to 3.59% based on 1997 figures, should this modification be implemented.

Site Classification	1997 % Total Throughput	Number of Sites
VLDMC	19.72	47
DMC	14.54	542
DMs below 2 mtpa	3.59	395

Greater latitude is proposed for sites below 2 million tpa to acknowledge the greater difficulty faced by shippers in forecasting and communicating with large numbers of small DM sites and because of the smaller impact on the operation of the system.

Cancellation of the NDM to DM conversion programme means that shippers will only be required to forecast for larger sites which can be achieved with greater accuracy and cost effectiveness. However, the reduced number of DM sites has eroded the benefits of diversity.

Some end customers have previously suggested a 3% tolerance to be too tight when imbalance charges are passed through by shippers based on the site's tolerances, however, this should not necessarily be the case as balancing is done at aggregate portfolio level. Shippers able to balance their portfolio accurately will benefit from reduced neutrality costs and these may be passed through to end users. Transco has further demonstrated the improved performance in terms of datalogger reads, which some shippers had seen as a prerequisite for convergence.

Therefore, this modification strikes a balance between encouraging and rewarding best practice, setting achievable targets, reducing cross subsidy amongst shippers and aims to reduce neutrality costs overall.

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

Condition 7, Relevant Objective (b):
This modification incentivises DM shippers to take responsibility for balancing their own portfolios more accurately and encourages accurate and timely information flows between end users and shippers. This will aid Transco in taking the most appropriate balancing decisions, thereby enhancing the efficient operation of the system and reducing the level of untargetted costs.

Condition 7, Relevant Objective (c):
The modification promotes a level playing field for shippers by eliminating a significant amount of cross subsidy between VLDMC and DM sites without seeking to impose an unreasonable level of balancing performance for smaller sites where forecasting is more difficult and the impact on the system is low.

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

a) implications for the operation of the System and any BG Storage Facility:

Greater incentivisation for accurate shipper balancing and the encouragement of timely information flows between shippers, end users and Transco should enhance the efficient operation of the system.
Transco is not aware of any impact on any BG Storage facility.

b) development and capital cost and operating cost implications:

Costs will be negligible.

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:**

Transco is not aware of any impact on price regulation.

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:**

The modification is broadly in line with the Network Code as originally envisaged and consequently Transco is not aware of changes to the level of contractual risk.

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

A minor change to Transco systems will be required. Transco is not aware of any changes for shippers' systems.

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

Shippers to DM sites above 2 million tpa will receive an imbalance tolerance of 3% in relation to those sites. Shippers to DM sites below 2 million tpa will continue to receive a tolerance of 8%.

8. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

Shippers may seek to improve communication with some end users. There may be some additional direct pass through of balancing costs to some end users and lower neutrality pass through.

9. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of implementing the Modification Proposal:**

Transco has not been informed of any consequences on the legislative and regulatory obligations and contractual relationships of implementing this modification.

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

Advantages: Elimination of a significant proportion of cross subsidy.
Reduced system balancing actions.
Reduced possibility of extreme flexibility prices.
Lower neutrality costs.

Disadvantages: A small amount of cross subsidy will remain.

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

Representations have been received from; **Scottish Hydro Electric, British Steel, Mobil Gas Marketing, Slough Heat and Power, Shell Gas Direct, Eastern Power and Energy Trading, Powergen, National Power, Southern Electric Gas, Alliance Gas, British Gas Trading, Enron, the Association of Electricity Producers (AEP) and Total Gas Marketing.**

Shell Gas Direct, Southern Electric, British Gas Trading, Enron, Mobil and AEP registered full support for the modification, with Mobil and AEP stating an ideal preference for full convergence of all DM sites. The modification was supported with reservations by Eastern and National Power, while Alliance, Powergen, British Steel, Scottish Hydro Electric and Slough Heat and Power oppose implementation. Total expressed a preference for maintaining the status quo but would not be opposed to implementation. The principle of convergence was supported by all respondents with the exception of Alliance and Slough Heat and Power.

The representations and Transco's response are summarised below:

Tolerance Levels

Views vary considerably regarding the levels at which convergence should take place. **Mobil, AEP, Powergen and Scottish Hydro Electric** favour a 3% convergence based on arguments encompassing discriminatory practice, incentivisation for accurate forecasting and effective cost targetting. **Alliance**, supported by **Slough Heat and Power** and **Total**, favour the retention of all DMs at 8%, contending that the lack of telemetry facilities available to DM sites renders them unable to predict and control their offtakes to the standard of VLDMCs. **British Steel** favour covergence at 5% based on reduced cross-subsidy and their difficulty in achieving 3% due to complex production processes.

Such varied views clearly reflect the substantial differences in the sizes of sites which respondents represent. As stated above, Transco's key aim in proposing the modification is to incentivise accurate balancing performance and eliminate undue discrimination without imposing unreasonable demands, and from the spectrum of views expressed, Transco believes this modification occupies a 'middle ground' which best represents the overall industry view.

Ofgas Energy Balancing Consultation

Scottish Hydro Electric, AEP and **Total** highlighted the likelihood of amendments to the balancing cash-out regime which may result from this Consultation, possibly reducing the need for balancing tolerances in the longer term. However, such amendments are purely speculative at this stage and if fundamental changes were to made in the future, the present weight of argument in favour of convergence for the interim period remains undiminished. Therefore Transco shares the view of **Scottish Hydro Electric** and **AEP** that this Consultation should not be an excuse to delay convergence.

Non Convergence of DM Sites below 2 million tpa

Southern Electric and **Shell Gas Direct** contended that small DMs should not converge to 3% because the increase in communications contacts between shipper and end user entailed would be unacceptably burdensome. Further, **Shell Gas Direct** argued that this increased cost, together with installation of sophisticated gas measurement equipment would be too much to expect relatively small sites to bear. **Slough Heat and Power** highlight the increased costs of communication as the crux of their opposition to DMs above 2 million tpa reducing to a 3% tolerance, however this view was not broadly shared. **Southern Electric** also noted many small DMs are interruptible, bringing a greater degree of unpredictability to these sites' consumption profile, and in view of their valuable service to the system it would be unfair to impose a 3% tolerance on these sites. Moreover, **Shell Gas Direct** expect a tighter tolerance for small DM sites to increase shipping costs as well as end user costs which could frustrate competition in that sector.

As stated earlier, Transco shares the view of many respondents that convergence of all DMs to 3% is a desirable objective. To this end, Transco agrees with **Enron's** suggestion to monitor balancing tolerance levels going forward with a view to proposing a subsequent modification for full convergence when this is considered appropriate.

Datalogger Performance

Eastern Power and Energy Trading supported the essence of the modification but requested a delay in implementation due to inadequate datalogger performance. **Total Gas Marketing** also registered this concern. Latest Transco data indicates approximately 0.5% of reads per day are queried, and overall accuracy is in the order of 97%, never falling below 95%. Due to the variation in profile of DM loads, datalogger reads and the correction process cannot be perfect, however based on recent performance Transco does not believe datalogger quality is a significant obstacle to implementation.

Telemetry

The crux of **Alliance's** opposition to DM convergence is that without telemetry, a 3% balancing tolerance is not achievable. Transco would contend that given the length of time the Code has been in force, shippers should not have to rely completely on the real time information telemetry provides in order to forecast to this degree of accuracy for their larger DM portfolio. **British Gas Trading** augment this view by noting that in anticipation of convergence, many shippers have invested in systems and operations to improve forecasting. To further delay convergence would see such forward planning go unrewarded.

Commissioning/Operational VLDMCs

It follows from the proposed deletion of paragraph 8 F.2.2.2 of part II of the Transition Document in version 1.1 of this report that commissioning VLDMCs will converge to the tolerance of operational VLDMCs. While supporting the remainder of the modification, **National Power** contend that commissioning VLDMCs should retain their current 8% tolerance. After due consideration Transco acknowledges that further investigation needs to be undertaken in order to determine whether a commissioning VLDMC can reasonably be expected to balance to the same tolerance as an operational VLDMC. Transco therefore proposes that commissioning VLDMCs continue to balance to 8% for a further period of three months, during which time their balancing performance will be investigated. However, in the absence of any subsequent modification proposal, commissioning VLDMCs will converge to a 3% tolerance with effect from 1 September 1998.

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

This modification is not required 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 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:

This modification is not required to comply with the above clause.

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

Only a minor change to Transco systems is required.

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

Draft Modification Report circulated to Modification Panel members, Shippers, and Non-Network Code parties seeking representations	24 April 1998

Close out for representations	18 May 1998
Modification Report to Ofgas	21 May 1998
Ofgas Direction for Implementation of Modification	29 May 1998
Modification implemented and effective	1 June 1998

16. Recommendation concerning the implementation of the Modification Proposal:

Convergence of all DM sites to 3% is currently scheduled to take effect on 1 June 1998, and therefore Transco recommends that this modification should be implemented by that date.

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 provided pursuant to Rule 7.3

SECTION F : SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

Amend paragraph 2.2.2.(i)

"3% in respect of System Exit Points (other than NDM Supply Point Components or DM Supply Point Components where the Annual Quantity of the Supply Point is less than 58,600,000 kWh *(2,000,000 therms)*) and relevant Connected System Exit Points....."

Renumber paragraph 2.2.2.(ii) as paragraph 2.2.2.(iii)

Add new paragraph 2.2.2.(ii) to read as follows :

"2.2.2.(ii) 8% in respect of DM Supply Point Components where the Annual Quantity of the Supply Point is less than 58,600,000 kWh *(2,000,000 therms)*;"

TRANSITION DOCUMENT PART II PARAGRAPH 8

Delete paragraph F.2.2.2.

Insert new paragraph F.2.2.2.

"2.2.2 For a period of three months commencing on 1 June 1998, the Applicable Imbalance Tolerance Percentage in respect of a VLDMC Supply Point Component to which paragraph F.1.3 applies shall be 8%."

Signed for and on behalf of Transco.

Signature:

John Lockett
Manager, Network Code

Date: 11·6·98

Director General of Gas Supply 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 **0228**, version **1.3** dated **11/06/98**) be made as a modification to the Network Code.

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

Signature:

Kyran Hanks
Director of Transportation Regulation

Date: 17/6/98

The Network Code is hereby modified, with effect from 1/6/98, in accordance with the proposal as set out in this Modification Report, version 1.3.

Signature:

Process Manager - Network Code
Transco

Date: 23/6/98

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.