Modification Report
URGENT Modification Reference Number 250/250a

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.2(a) Ofgas has agreed that this Modification Proposal should be treated as Urgent because analysis is required to determine the long term balancing tolerances for commissioning VLDMCs and DMs, and current transitional arrangements cease on the 1st September 1998.

2. Procedures Followed:

Transco agreed with Ofgas (and has followed) the following procedures for this Proposal;

Draft for Consultation - 20 July 1998
Representations Close out - 5pm 31st July 1998
Final Mod Report to Ofgas - 5 August 1998
Ofgas decision expect - 10 August 1998

3. The Modification Proposal:

Modification 250, put forward by Enron proposed to extend the 8% balancing tolerance for commissioning VLDMCs indefinitely. Transco's alternate proposal intends to extend the transitional arrangements for a further six months in order to allow a full analysis to be undertaken of the long term balancing tolerances to be applied to commissioning sites.

4. Transco's opinion:

Transco considers that the transitional arrangement should be extended for a further six months for the following reasons:-

Under the transitional arrangements it was envisaged that all DM and VLDMC sites would converge to a common balancing tolerance of 3% to avoid cross subsidy between different categories of DM sites. This convergence was due to take place on the 1st June 1998. Mod 228 was brought forward to allow 8% balancing tolerance to continue for DM sites consuming less than 2 million therms per annum as a result of the reduced diversity effect caused by the cancellation of DM conversion. At the late stages of Mod 228 it was recognised that commissioning VLDMCs may be unable to balance to 3% and a temporary extension was granted in order that some analysis could be undertaken to determine to appropriate level of the tolerance for those sites.

That analysis has started, and the extension envisaged in Mod 250a would give sufficient time for the analysis to be completed thoroughly, and if necessary to bring forward a future modification to set out the long term tolerance appropriate to commissioning sites.

The analysis will cover the following; the definition of 'commissioning' in relation to VLDMCs and DM sites consuming in excess of 2 mtpa, the balancing performance of sites known to be commissioning over the last 6 months, the physical requirements for VLDMCs and DM in excess of 2mtpa whilst commissioning and the systems implications of separately identifying 'commissioning sites'. This analysis will be regularly reported to the energy workstream and will seek information from industry in order to inform its views. This analysis should be completed, and the results communicated to the industry in December 1998, allowing sufficient time to bring forward any modifications required to set the appropriate long term balancing tolerance for commissioning sites.

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

This modification is put forward as a temporary extension to an existing transitional provision and it better facilitates the relevant objectives by allowing analysis work to determine the appropriate level of tolerances. Any future related modifications based on this analyisi will better facilitate 7(a) efficient and economic operation of the pipeline system, and 7(b) the efficient discharge of Transco's obligations.

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

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

None

b) development and capital cost and operating cost implications:

Manual work around required to ensure that the 8% tolerance is applied to commissioning VLDMC sites. A UK Link solution would be needed to identify 'commissioning' sites if balancing tolerances were to remain un-converged.

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 relevant

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

Not applicable

7. **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:**

Not relevant

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

None, a manual work around is in place to ensure commissioning VLDMCs receive the 8% balancing tolerance.

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

Current arrangements will remain in place until a full review has been carried out.

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

Not applicable

11. **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:**

Not relevant

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

In order to respond to legitimate concerns over the appropriate level of balancing tolerance to apply to commissioning sites it is necessary to undertake a thorough analysis. Both Mod 250 and 250a have been raised with this intention. Mod 250 seeks a permanent extension of the 8%, whereas the alternate intends to extend the tolerance for six months. Both proposals point out the need for a thorough analysis of the needs of commissioning sites in order to set the long term level appropriately.

Advantages:-

Mod250a would provide a timetable and deadline for the analysis and determination of the appropriate long term balancing tolerances for both DM and VLDMC commissioning sites.

The original intention within Code was to converge tolerances to 3%. The proposal to extend tolerances for a period would retain that original principle unless and until analysis shows that tolerances should not converge to that level.

Disadvantages

Retaining un-converged balancing tolerances retains an element of cross subsidy between different categories of DM sites.

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

Representations were received from **National Power, Enron, Energy Intensive User Group, Power Gen, Amoco, Total Oil Marine, British Gas Trading, United Gas Services Ltd, AGAS, Entergy, AGIP (U.K.) Ltd, Shell Gas Direct Ltd, BP Gas Marketing, British Steel and Scottish Hydro-Electric Plc.**

Amoco, Total, Powergen, EIUG, National Power, Enron, Entergy, AGIP and BP Gas supported the permanent extension of balancing tolerances for Commissioning VLDMC's.

British Gas Trading, AGAS, Shell Gas Direct, British Steel and **Scottish Hydro-Electric** supported the temporary extension of balancing tolerances with the analysis to determine the appropriate long term tolerances.

United did not support the extension of balancing tolerances even on a temporary basis as this represents a cross subsidy from one section of the community to another.

Transco Response:

Whilst Transco understands the preference for an indefinite extension of these tolerances and the concerns expressed that without further intervention the tolerances will converge to 3%, Transco has undertaken to carry out the appropriate analysis and consider the needs of commissioning DMs within that analysis. At this stage it is not clear whether the appropriate level of long term tolerances will be 3%, 8% or some other value, and due account must be taken of the cross subsidy issue raised by United Gas.

Transco acknowledge **AGIP (UK)'s** concerns over the definition of 'commissioning', currently commissioing is defined in Network Code and specific provisions are entered into NExA's, therefore a framework does currently exists. Transco will, as part of its analysis, consider whether the current definitions and provisions are sufficiently robust and this will help to inform the debate about the appropriate long term levels for balancing tolerances.

Transco's view is that no greater certainty will be provided to commissioning sites by the permanent extension of these tolerances, since a thorough analysis is planned, with the intention of implementing the results of that analysis. Given that the original intention of the Network Code was to converge to 3%, Transco feels that the principle of convergence should remain until a case to the contrary is proven.

Transco therefore supports a six month extension and will undertake the necessary analysis during that time to determine the appropriate long term balancing tolerances.

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

Not relevant

15. 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:

Not applicable

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

None

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

Implementation from 1st September 1998

18. Recommendation concerning implementation of the Modification Proposal:

Transco recommends the implementation of Mod 250a

19. 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.

20. 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.

21. Text provided pursuant to Rule 9:

Transitional document Part II Paragraph 8 section F2.2.2

Amend paragraph F2.2.2

"2.2.2. For a period of <u>nine</u> months commencing on 1 June 1998,...."

Signed for and on behalf of Transco.

Signature:

John Lockett
Manager, Network Code

Date: 17-8-98

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 250/250a, version 3.0 dated 14/8/98) be made as a modification to the Network Code.

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

Signature: Rebecca Purves

Rebecca Purves
Head of Gas Balancing

Date: 20 August 1998

The Network Code is hereby modified, with effect from 1 September 1998 , in accordance with the proposal as set out in this Modification Report, version 3.0.

Signature: D. Rachmal pp R. GRAY

Process Manager - Network Code
Transco

Date: 26/8/98.

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.