

Modification Report
URGENT Modification Reference Number 0309
Close Out of Reconciled Gas

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgas has agreed that this Modification Proposal should be treated as Urgent due to the timescales agreed with the industry for the Close Out process and to ensure the Modification is considered prior to the Full and Final settlement date.

2. Procedures Followed:

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

Modification Proposal circulated	21 December 1998
Phase 1 close out for representations	11 January 1999
Review text and representations	12 January 1999
Circulate revised text	1 February 1999
Phase 2 close out for representations	8 February 1999
Final Report to Ofgas	12 February 1999

3. The Modification Proposal:

This Modification Proposal has been raised by Review Group 263R to put in place the necessary amendments to the Network Code to facilitate and give effect to the Close Out Full and Final agreements. The Proposal deals specifically with reconciled energy and not Transportation, which will be addressed through a parallel Full and Final process.

Close Out seeks to settle Users reconciled gas positions in aggregate for the period gas day 1 March 1996 to gas day 31 January 1998 inclusive, provided that all Network Code Users agree to their individual aggregate reconciled gas position. It is a means to achieve financial settlement of IQR issues, non IQR queries, uninvoiced reconciliation and other issues for all relevant Users.

This approach recognises that line by line adjustment may not be cost effective or efficient for either Users or Transco and that a more pragmatic approach is desirable. The Proposal will realise benefits for all parties particularly with regard to delivery of a sufficiently robust

final billed energy position, without the need to wait for individual meter point adjustment. This is achieved through aggregate reconciliation of individual meter points in order to provide a final Close Out amount.

By giving effect to Close Out this Modification Proposal will remove the uncertainty and risk for all Users associated with the period up to 1 February 1998, allowing resources to be released to focus on resolving current and future challenges for the industry.

4. Transco's opinion:

Implementation of this Proposal will give effect to the energy balancing aspect of the Full and Final Agreements and facilitate the completion of Close Out, thus enabling the industry to draw a line under the first 23 months of Network Code.

A key element of Close Out is that it has been approached on a consensual basis, driven and supported by both Shippers and Transco. All parties have demonstrated a will to complete the process and this Proposal enables those joint efforts to be realised.

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

Transco believes the Proposal will better facilitate the relevant objectives, specifically:

Condition 7. Relevant Objective (b)

The industry recognises that the pursuit of line by line queries associated with the start of Network Code is neither economic nor efficient. Resources presently employed on these queries could be released to address current and future requirements. Close Out will allow Shippers and Transco to realise efficiency benefits and move forward.

Condition 7. Relevant Objective (c)

By removing balance sheet uncertainty and finalising individual disputes in a non discriminatory manner, Shippers will be starting the period after 1 February 1998 on an equal footing with regard to invoice disputes. This clarity should enhance future competition as Shippers will be able to plan with greater confidence.

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

a) implications for the operation of the System:

As the Proposal deals with a prior period there will be no System implications.

b) development and capital cost and operating cost implications:

There will be no additional capital or operating costs arising from this Proposal.

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:

It is anticipated that Close Out will reduce costs for Transco and therefore recovery of costs associated with the process is not appropriate.

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

The Proposal will have no effect on price regulation.

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:

The Proposal relates to a prior period and is specifically designed to facilitate the gas balancing aspect of the Close Out process. The contractual risk to Transco is therefore low.

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

There are no known development implications for computer systems for either Transco or Users.

9. The implications of implementing the Modification Proposal for Users:

Shippers' reconciled gas positions will be settled for the period 1 March 1996 to 31 January 1998.

The Proposal will only become effective when all Shippers have signed the bi-lateral Full and Final Agreements and invoices have been paid. The Proposal requires 100% participation to ensure neutrality is maintained for all Users.

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

Transco is not aware of any implications for any parties other than Users.

11. **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:**

Transco is not aware of any consequences on legislative, regulatory or contractual obligations.

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

Advantages: Facilitates the completion of Close Out.
 Finalises agreed Close Out energy methodologies.
 Ensures neutrality remains whole.
 Removes uncertainty with regard to gas balancing charges prior to 31 January 1998.
 Efficiency benefits over line by line adjustment.

Disadvantages: Reliant on methodologies which in some cases vary from existing Network Code rules.

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

Final representations were sought from Shippers on phase 2 of the consultation.

Eight representations were received addressing both the Full and Final Agreement and Modification Proposal. Of these, two indicated support for the process whilst others confined their views to details on the legal text or points associated with the Close Out process. There were no representations opposing the Proposal.

Given the high level of detail in the responses, the points highlighted below pick up major issues or themes raised by each respondent.

Gas Light and Coke requested a number of small changes and a correction. Two key requests were reinstatement of the reconciliation neutrality cap and removal of the Theft of Gas provision.

Enron Direct recommended that the text should ensure that full participation is achieved and that if Shippers do not participate that they will still have the facility of meter point reconciliation. In addition, **Enron Direct** requested that a clause be incorporated to allow dispute of energy allocations between pre and post Close Out for future reconciliations.

BP Gas Marketing indicated full support for the Proposal.

Eastern Natural Gas suggested that twelve business days notice should be given to Users of the System Reconciliation date, not five as proposed. **Eastern Natural Gas**

also expressed concern that adjustment reconciliation amounts may become due in respect of the system reconciliation period, after the system reconciliation date. Finally confirmation was requested that no further modification would be required for Transportation Settlement.

British Gas Trading were concerned that some parts of the drafting were unclear, particularly where parentheses and gaps appeared.

Volunteer expressed doubts over the entire process and does not believe there has been a proper industry wide consultation. **Volunteer** suggested that a weighted average SAP price based on the size of UDQO's would be a better energy value methodology, that a neutrality smear based on one month did not account for portfolio changes and that shippers with large numbers of meter points, and hence queries, will drive up the neutrality smear. Further issues related to data discrepancies, duplication on adjustments, Plan B, unreconciled meters, timescales, meter data and Transco neutrality.

Shell Gas Direct had no further comments to make on the Proposal.

Southern Electric Gas indicated support for the process subject to satisfactory resolution of outstanding queries and clarification or amendments where necessary to the legal text and the Settlement Agreement. Most of the points raised were points of clarification but also questioned the possible recovery of further reconciliation neutrality charges.

Transco Response:

Transco is aware that, given the diverse views of the industry, it is problematic to produce legal text for the Proposal which satisfies all parties. However, in recognition of the complexity of the issues, Transco has issued the text for consultation twice and, where possible, incorporated the views expressed or addressed them through the parallel Review Process.

In answer to the specific points raised above:

It was agreed by Review Group 0263R that it would be inappropriate to retain the reconciliation neutrality cap, given the nature of the agreement and the potential counter party risk that Shippers may face by a protracted payment period. Theft of Gas is provided for due to Licence requirements and, in financial terms, is not significant.

Both the Full and Final Agreement and Modification Proposal are based on full participation. In the event that a Shipper did not sign the Full and Final Agreement, the industry would need to consider the position. Nothing in the Proposal prevents non participating Shippers using individual meter point reconciliation. Where reconciliation crosses the 31 January 1998, the variance period relating to Close Out will not be financially adjusted.

The settlement date specified in the Settlement Agreement is 15 March 1999. The clause allowing further reconciliation neutrality adjustments is to allow for the smearing of any neutrality charges in the event of late payment or of Shipper failure. Transco does not intend to raise a Transportation Modification for Close Out.

At the time of issuing the phase 2 consultation, some dates and issues had yet to be fully resolved through the Review Group. It would have been premature for Transco to have unilaterally inserted this information. Transco acknowledges that this will have led to some uncertainty, but on balance felt it was better to issue the information earlier rather than delay the process any more than was necessary.

Opportunities for consultation throughout Close Out have been extensive, through industry meetings, correspondence, the Review Group, Ofgas and directly with Transco. Treatment of SAP and neutrality apportionment were discussed at length and presented to an industry meeting in December where the principle was accepted. As with many aspects of such a complex process, there are a number of solutions which are equally valid. The proposed methodologies are based on a broad Shipper consensus.

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

This Proposal does not have an impact on safety or other legislation.

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:**

The Proposal does not affect the methodology established under the above condition.

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

No programme of works is required.

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

The Modification Proposal should be implemented by 19 February 1999 in advance of the Full and Final Agreement signing day on 24 February 1999.

18. **Recommendation concerning implementation of the Modification Proposal:**

Transco recommends this Modification Proposal is implemented.

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:

See attached document reference Draft 5A/9.2.99 - IQR Modification (4 pages)

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 12/2/99

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 0309, version 1.0 dated 12/02/99) be made as a modification to the Network Code.

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

Signature:



Director of Transportation Regulation

Date: 24/2/99

The Network Code is hereby modified, with effect from 31/03/99, 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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IQR MODIFICATION

TRANSITION DOCUMENT PART II

11. SYSTEM RECONCILIATION

11.1 Condition

11.1.1 The provisions of paragraphs 11.2 and 11.3 are conditional upon:

- (i) Transco and each User (including if Transco so determines any person which was, at any time during the System Reconciliation Period, but is no longer a User) agreeing in writing, not later than 24th February 1999, upon the amount which is the System Reconciliation Quantity (as defined in paragraph 11.2.1(b)) for that User; and
- (ii) each such agreement between Transco and a User being unconditional (or unconditional as to the agreement of the System Reconciliation Quantity) upon the System Reconciliation Date.

11.1.2 If the condition in paragraph 11.1.1 is not satisfied by 15th March 1999, paragraphs 11.2 and 11.3 shall lapse and be of no effect; and Transco will so inform Users as soon as reasonably practicable.

11.1.3 Nothing in this paragraph 11.1 shall require Transco to agree with any User upon any particular amount by way of System Reconciliation Quantity.

11.2 Interpretation and general

11.2.1 For the purposes of this paragraph 11:

- (a) the "System Reconciliation Period" is the period from 1st March 1996 to 31st January 1998;
- (b) for each User, the "System Reconciliation Quantity" is the amount (positive or negative), agreed or to be agreed in writing between Transco and that User, by which it is deemed that:
 - (i) the quantity of gas offtaken in aggregate by the User from the System in the System Reconciliation Period, differs from
 - (ii) the quantity of gas hitherto treated (including as a result of Individual Reconciliation pursuant to Section E6) for the purposes of the Code

(including pursuant to the Migration Document, where applicable) as so offtaken;

- (c) **“Aggregate System Reconciliation”** is a reconciliation and adjustment (in accordance with relevant provisions of Sections E and F as applied pursuant to this paragraph 11) in respect of each User’s System Reconciliation Quantity (in respect of the System as a whole and not by reference to any particular System Exit Point);
- (e) the **“System Reconciliation Date”** is the date notified (on not less than 5 Business Days notice) by Transco to Users as such.

11.2.2 It is acknowledged and agreed that:

- (a) for the purposes of enabling the determination of System Reconciliation Quantities, Individual Reconciliation, in so far as relating to periods falling within the System Reconciliation Period, may be or may have been suspended;
- (b) subject to paragraph 11.4, Aggregate System Reconciliation shall be a final and conclusive adjustment and reconciliation in respect of all quantities of gas which have been or should be allocated to or for the account of any User in relation to the System Reconciliation Period or any part thereof; and accordingly following Aggregate System Reconciliation all provisions of the Code providing for or relating to the determination of such quantities shall be deemed to have been complied with;
- (c) subject to paragraph 11.4, by reason of Aggregate System Reconciliation no further Individual Reconciliation in respect of any such period will be required (and without limitation no Individual NDM Reconciliation will be carried out pursuant to Section E7.5.4 in respect of the period prior to the Reconciliation by Difference Date); and
- (d) accordingly, no further Reconciliation Neutrality Charges will become payable, other than in respect of any Adjustment Reconciliation Neutrality Amount arising after the System Reconciliation Date pursuant to Section F6.5.

11.3 **Aggregate System Reconciliation**

11.3.1 For each User, Aggregate System Reconciliation will be carried out in accordance with the following provisions:

- (a) a Reconciliation Clearing Value shall be calculated by multiplying the User’s System Reconciliation Quantity by the arithmetic mean of the month-end SAPs for each relevant month in the System Reconciliation Period; for which purposes:

- (i) "month-end SAP" in respect of a calendar month is the amount which would be determined as System Average Price pursuant to paragraph 6.5.2 (of this Part II) where the NCI Day is the last Day of such month;
 - (ii) a calendar month in the System Reconciliation Period is a "relevant month" where the User had any UDQO (including one by way of Unauthorised Gas Flow) for any Day in such month;
- (b) the System Reconciliation Quantity shall be extinguished by a System Clearing Contract in accordance with Section F5 (which shall apply in accordance with paragraph 11.3.3);
 - (c) the Aggregate System Reconciliation will be carried out on the System Reconciliation Date, and the Reconciliation Clearing Charge will be treated (for the purposes of Section F5.2.4) as payable in respect of the System Reconciliation Date;
 - (d) no Reconciliation Transportation Charge Adjustments shall be made by virtue of the Aggregate System Reconciliation (but without prejudice to any other agreement between Transco and the relevant User);
 - (e) notwithstanding Section S, the Invoice Due Date in respect ^{of} the Reconciliation Clearing Charge shall be a date agreed between Transco and Users.
- 11.3.2 Section F6 shall apply, in relation to Aggregate System Reconciliation, separately from its application in relation to Individual NDM Reconciliation, DM Reconciliation and CSEP Reconciliation, on the basis that:
- (a) the Reconciliation Clearing Charge (in accordance with paragraph 11.3.3(c)) for each User shall be deemed to be a Residual Reconciliation Clearing Charge (under Section F6.1.3(c));
 - (b) the relevant neutrality month shall be the month of January 1998 (the final neutrality month);
 - (c) the first relevant month shall be the month in which the System Reconciliation Date falls;
 - (d) Section F6.3.2 shall not apply;
 - (e) notwithstanding Section S, the Invoice Due Date in respect ^{of} the Reconciliation Neutrality Charge shall be a date agreed between Transco and Users.

11.3.3 For the purposes of Section F:

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- (a) the System Reconciliation Quantity shall be deemed to be a Reconciliation Quantity (under Section E6.1.4(d));
 - (b) Aggregate System Reconciliation shall be deemed to be Individual Reconciliation (under Section E1.3.1);
 - (c) the Reconciliation Clearing Charge (for the purposes of Section F5.2.1) shall be the Reconciliation Clearing Value determined under paragraph 11.3.1(a).

11.4 Theft of gas

This paragraph 11 shall not take effect so as to prevent the continued operation of Section E3.6 in relation to the illegal taking of gas during any part of the System Reconciliation Period, and any adjustment to be made pursuant to Section E3.6.1 shall be made in relation to quantities offtaken by the relevant User (and as though such illegal taking had occurred) after the System Reconciliation Period.