

## Modification Report

### **URGENT Modification Reference Number 318**

#### **Domestic AQ Review**

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 for both commercial and IS reasons. Any Network Code changes to the AQ review process should be finalised with sufficient lead time to allow the necessary functionality to be developed and all participants to familiarise themselves with the new process and procedures. Although revised AQs would not become effective until 1st October 1999, the process to establish them is due to commence in April.

#### **2. Procedures Followed**

Transco agreed with Ofgas the following timetable for this Proposal;

2nd March 1999	proposal faxed to Ofgas for decision on urgency
9th March 1999	revised proposal faxed to Ofgas.
9th March 1999	letter received from Ofgas agreeing Urgency and timetable.
23rd March 1999	representation close out
30th March 1999	expected date of modification report to Ofgas

#### **3. The Modification Proposal**

To restrict the 1999 Domestic AQ Review to two specific categories of meters which are believed to have the largest proportion of incorrect Annual Quantities.

These categories are:-

##### **1. Vacant Sites**

This should cover sites where the AQ = 1, which may have become occupied and therefore need an increase in AQ. It should also cover sites which have become vacant and need their AQ's reducing and will specifically include those sites which have been identified by shippers as valid for the RBD Vacant adjustment.

## **2. Sites with Default AQs**

This should cover sites which have an LDZ default AQ, to ensure that more robust AQ are calculated.

Both categories need to be supported by meter reading information which can demonstrate revised consumptions. Transco should use both pre and post competition reads to achieve this.

This proposal affects the 1999 Domestic AQ Review only. Transco and the shipping community should continue developing a properly controlled process for the year 2000 to enable a full AQ review to be carried out then.

The I&C AQ Review is unaffected by this proposal.

## **4. Transco's opinion**

Transco supports the principle of a limited domestic AQ review as the best course of action for the industry this year. However it does not believe that the inclusion of "vacant" sites, as a specific subset of domestic sites in the review, is appropriate. Apart from the difficulties of policing compliance with the rules developed to process vacant sites, Transco, supported by a number of shippers, is of the opinion that these sites should be dealt with using existing Network Code rules, not by adjustment of the AQ. Transco is of the view that shippers need to develop their own policies for dealing with these sites, either by holding them in their portfolios as normal supply points or by isolating and withdrawing.

Transco also does not believe that reducing the AQ of a vacant site to a very low level is appropriate as it does not provide the appropriate economic signals. A low AQ allows the shipper to hold the site and incur low transportation charges and, in the event the site becomes reoccupied, there is no immediate mechanism to increase the AQ to an appropriate level for gas balancing and transportation charge purposes. To allow a specific set of sites to reduce their AQs in this way may introduce an element of cross subsidy into this market sector.

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

In line with its own proposal on this issue, Modification Proposal 0317, Transco believes that a limited domestic AQ review is the most economic and efficient course of action for the industry this year.

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

a) **implications for the operation of the System**

Not applicable.

b) **development, capital cost and operating cost implications**

Not applicable.

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**

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**

Transco's view is that this proposal could serve to increase its level of contractual risk. Transco is unable to comment in detail on this matter since the process for carrying out vacant site AQ appeals is not included in the proposal. However, it is reasonable to assume that for vacant site appeals, a proportion of the obligations, operating costs and compliance monitoring associated with this process would reside with Transco.

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

Transco has not been informed by any shippers that additional development work would be required to implement this modification.

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

In addition to the sites identified as having default AQs, shippers would have the additional opportunity to appeal the AQ of an additional subset of domestic sites categorised as "vacant". This may have implications for some 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 non-Network Code party.

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 has not been informed of any such consequences.

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

**Advantages**

This modification proposal allows Transco and shippers to focus resources on redetermining a limited number of domestic AQs.

**Disadvantages**

This proposal, in common with Transco's own proposal, does not provide an opportunity to revise the AQ of the majority of domestic meter points.

Additionally, this proposal does not allow domestic sites to cross the 73,200kWh threshold but does introduce specific proposals to deal with "vacant" sites.

13. **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 **BP Gas Marketing, British Gas Trading ("BGT") (Proposer), Calortex, Eastern Natural Gas (Retail) ("ENG"), ScottishPower, Southern Electric Gas and United Gas Services.**

All the representations, except that from the proposer, opposed implementation

ENG, Southern and Calortex were specifically against the proposal on the issue of vacant sites. These shippers expressed general concerns about being able to "ring fence" certain sites in the manner proposed and suggested that vacant sites could be dealt with using the existing provisions of the Network Code, namely isolation and withdrawal procedures.

BGT suggested that the exclusion of vacant sites and the inclusion of sites where the current AQ is 1 kWh in the AQ review could create an AQ bias at portfolio level. On the basis that

BGT suggested that the exclusion of vacant sites and the inclusion of sites where the current AQ is 1 kWh in the AQ review could create an AQ bias at portfolio level. On the basis that “vacant” is by definition a transitional state it is not appropriate to take a portfolio snapshot and significantly reduce transportation charges and gas costs for a subset of sites. Transco believes, like a number of shippers, that their issues concerning vacant sites can be accommodated by the existing Network Code provisions.

**14. 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.

**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**

This modification is not proposed as a result of changes to the methodology established under Standard Condition 3(5).

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

Transco is in the process of developing functionality to undertake a limited domestic AQ review and consequently those elements of BGT’s proposal that are common to Transco’s can be accommodated. However, to process AQ amendments for domestic supply points that are not included in Transco’s original modification proposal will require additional functionality. Alternatively, vacant site AQ reductions would have to be processed using appeal functionality. If this proposal is implemented, any new processes would be administered by operating new internal and external manual procedures.

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

In view of Transco’s recommendation, no implementation timetable is proposed.

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

Transco recommends that this modification is rejected in favour of Modification Proposal 0317.

**19. Transco's Proposal**

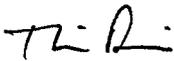
This Modification Report contains Transco's proposal not to modify the Network Code and Transco now seeks agreement from the Director General in accordance with this report.

**20. Text**

Transco opposes this proposal and consequently no text is included in this report

Signed for and on behalf of Transco.

Signature:



**Tim Davis**  
**Manager, Network Code**

Date: 8.4.99

## 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.