

Modification Report
Connected System Annual Quantity (CSAQ) Updates
Modification Reference Number 0319
Version 1.4

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The proposal is: the provision of aggregate AQ information for a CSEP should be calculated and submitted to Transco by the shippers shipping to the CSEP rather than the iPGT responsible for the downstream connected system.

This proposal was raised by Elf Gas & Power and submitted to the March Modification Panel. The proposal was initially referred to the SPA and Metering Workstream which held a special meeting in May to discuss the issue. This meeting was reported to the July Modification Panel which, in turn, requested that further work be carried out to define the business processes and changes to contractual responsibilities that would be necessary if the proposal was implemented. To that end a Development Workgroup was set up with the following terms of reference:

- "a) establish the contractual link between the affected parties and establish if modifications to the Network code (and the LDZ CSEP NExA) are appropriate; and
- b) examine compromise alternatives that meet the requirements of the parties.

Also, depending on the outcome of the above, develop business rules, identify the necessary changes to legal documents and develop legal drafting."

The Development Workgroup met on three occasions and at the third meeting the consensus view was that this proposal, together with the business rules developed to implement it, should proceed to consultation. It was recognised that in the event that a decision to implement resulted from the consultation, further meetings would be required to develop legal drafting.

2. Transco's Opinion

In Transco's opinion this proposal should not be implemented. Transco believes that concerns associated with the existing contractual relationships should be resolved by shippers ensuring that iPGTs correctly fulfill their obligations as laid down in the CSEP NExA. Transco believes it is not necessary to modify the Network Code and associated contracts to resolve this matter.

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

The Development Workgroup did not achieve consensus on this point. The opposing points of view were established during the meetings and are borne out in the representations received following circulation of the draft Development Workgroup Report. They can be summed up as follows:

Transco, British Gas Trading, Calortex, Eastern, Scottish and Southern and Scottish Power do not believe that this proposal furthers the relevant objectives since the additional transfer and processing of data leads to process inefficiencies which in turn lead to additional inter-shipper risks and data processing costs.

Elf Gas and Power Ltd. (the proposer), Elf Pipelines Ltd. and British Gas Connections believe that the relevant objectives are furthered since the proposed process places responsibility for processing the data from which the CSEP AQs are derived on the parties, i.e. Network Code shippers, most affected by their calculation.

4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:

None

b) development and capital cost and operating cost implications:

If implemented, Transco will be required to implement new system functionality and procedures to manage the new processes.

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:

Any additional costs would not be specifically recovered.

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

This proposal has no consequence for 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

Transco believes that its level of contractual risk will be increased if this proposal is implemented on the basis of the original submission. However, a proportion of Transco's additional risk can be mitigated if the proposal was to be implemented in accordance with the business rules drafted during the development process. (The business rules were circulated as part of the consultation process but do not form part of this report.)

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

LDZ NDM CSEPs are viewed as a growth area. Accordingly, it is anticipated that the volume of AQ related data transfers will increase and this may result in additional systematisation. However, the development of Transco's systems will principally be driven by the volume of transactions rather than the business process adopted or the party contractually responsible for submitting the information. Consequently, long term system development in this area will be largely independent of this proposal.

However, if the proposal is implemented, in the short term the proposed routing of AQ and validation information will require Transco to develop new stand-alone systems to interface with iPGTs and shippers. Data transfers would be either paper or disk based.

Shippers will need to develop facilities to accept AQ information at supply point level from iPGTs, process it and forward aggregate values to Transco.

7. The implications of implementing the Modification Proposal for Users

If implemented the proposal will require Users to undertake additional administrative work.

Under the requirements of the NExA, iPGTs are required to pass aggregate CSEP AQ information to Transco. Under the proposal the iPGT would pass AQ information relating to individual downstream supply points to the CSEP shipper, which would then be responsible for aggregating this information and submitting it to Transco.

It should be noted that an effect of this proposal, implemented in accordance with the business rules previously circulated, will be felt by all NDM shippers. The effect is that any under nomination of AQs by CSEP shippers will result in additional demand being attributed to NDM supply points on Transco's system. The proposed AQ validation process for the acceptance or rejection of CSAQs should serve to mitigate this effect.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

The Development Workgroup did not identify that any non-network code party other than iPGTs would be affected by this proposal.

9. 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

The business process described in this report can be accommodated in the existing legislative and regulatory framework.

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

The proposer states that implementation would bring a number of advantages:

- i) Since CSAQ notifications form the basis for determining gas demands and transportation invoices, this proposal correctly places responsibility for deriving and submitting these notifications to Transco on the party with the greatest incentive to ensure that they are timely and accurate. The proposer claims that under the current arrangements the iPGT has little incentive to provide accurate information.
- ii) The principal commercial relationships exist in the respective Network Codes, that is between the shipper and Transco and the shipper and the relevant iPGT. The shipper is the common party and the proposer claims that its ability to manage its business should not be compromised by a document (the NExA) to which it is not a signatory.
- iii) The current arrangements introduce complexity for shippers attempting to reconcile Transco transportation invoices with those from the iPGT. If the values used in these invoices were derived by the shipper these reconciliations would be easier.
- iv) As a result of growth in this sector, IT solutions will be required in the near future to support CSEP related transactions. The iPGT view is that certain costs associated with these developments could be avoided, by iPGTs as a group, given that communication links already exist between Transco and shippers.

Disadvantages:

The absence of a single point of control may increase the risk that accuracy of the CSAQs will deteriorate over time. This concern resulted from the absence in the original proposal of a satisfactory mechanism for validating CSAQ notifications. This issue has been discussed by the Development Workgroup at length and as part of the discussions, business rules drafted to provide simple validation and a logical business process, using reference values provided by the iPGT.

The implementation of the proposal could result in additional administrative effort for shippers since they would be required to aggregate AQ data and regularly submit it to Transco.

Although an Information Exchange Network exists between Transco and shippers, there is currently no functionality to support the systematised transfer of CSAQ information. Consequently, shippers will have to use similar off-line processes to those employed by the iPGTs for submitting this information to Transco.

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

Representations relating to the draft Modification Report have been received from the following shippers: Aquila Energy, BP Gas Marketing, British Gas Trading, Eastern Energy Ltd., Scottish & Southern Energy and Scottish Power. These are appended to this report.

In line with Transco's recommendation, none of the representations received support implementation.

Several concerns were cited as reasons for the lack of support and these have been summarised below:

- i) the provision of information from a number of disparate sources will affect the accuracy of CSAQs;
- ii) the introduction of validation rules does not prevent inaccurate data from being processed;
- iii) the iPGT is not impacted by CSAQs and it is therefore best place to provide unbiased information;
- iv) the proposal still relies on the iPGT / Transco relationship to provide reference data and the iPGT will need to collate and provide it to Transco regardless of the process for calculating CSAQs;
- v) AQ data process functionality will need to be developed by every shipper wishing to ship to a domestic CSEP whereas iPGTs will already have similar functionality for calculating the reference information: this is not the most cost effective arrangement or the best way to encourage competition on CSEPs;
- vi) the tolerances in the validation rules would allow a certain degree of mis-apportionment of charges across the whole NDM sector which, with the application of RbD, would not be subsequently corrected;
- vii) the proposal introduces complexities and data transfers which would lead to duplicated effort and additional costs.

Transco is of the view that these are valid concerns and support its position that the proposal should not be implemented

One shipper suggested that Transco should hold information, at meter point level, downstream of a CSEP to provide a simpler process. Transco believes this goes beyond the scope of this modification proposal.

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

This proposal 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) or the statement furnished by Transco under Standard Condition 3(1) of the License

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

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

Transco will await the outcome of consultation before undertaking any system development work.

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

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

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this modification proposal is rejected.

17. Text

Transco does not support implementation and, therefore, no legal text is provided.

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 6/1/99