

Final Modification Report
Modification Reference Number - 0322
Removal of Isolated Only NDM Meter Points from NDM Supply Meter Point Demand

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal:

The Network Code Principal Document Section G3.4.3. states:

‘In the case of an NDM Supply Meter Point, NDM Supply Meter Point Demand will continue to be determined in accordance with Section H2 until such time as a Supply Point Withdrawal has (in accordance with paragraph G3.2) become effective in respect of the Supply Point in which the Supply Meter Point is or was comprised: but for the purposes of Individual NDM Reconciliation the Metered Quantity in respect of any period after the date of Isolation (and before reconnection) shall in accordance with paragraph 3.4.2 be deemed to be zero’.

An ‘isolated only’ meter point is a meter point which has been isolated by Transco but from which the shipper has not withdrawn. Isolation means that no gas can be offtaken at the meter point but in all other respects the shipper remains the registered user.

Isolation, and its commercial significance in the Network Code, has been discussed in detail by the SPA/Metering Workstream. The consensus of the group is that NDM isolated meter points should not be included in the demand attribution and allocation process and consequently attendees at the March 1999 Workstream meeting expressed their broad support for this Modification Proposal.

It is proposed that the Network Code is modified to establish that an NDM isolated meter point is excluded from the NDM demand attribution and allocation processes.

This Modification Proposal represents a long term, sustainable, solution but cannot be implemented until the fully automated process currently under development within UK-Link is completed.

2. Transco's opinion:

Transco is planning to implement a major functionality change to its UK-Link system in September 1999 which is expected to provide an ‘end to end’ solution for the isolations process. Transco has raised this Modification Proposal to support industry aspirations which seek the equitable treatment of isolated and isolated and withdrawn meter points in respect of the NDM demand attribution process. Transco believes that a common approach in this respect facilitates the economic and efficient use of the system and is therefore supportive of the objectives of the Modification Proposal.

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

Currently, NDM isolated only meter points are included in the determination of NDM demand and, after the gas flow day, are allocated gas. Since the meter point is physically isolated, no gas can be offtaken, (theft excluded), and consequently, any gas allocated, together with the associated commodity charges, will be reconciled back to the shipper when a meter read is processed. These rules mean that a shipper is required to source gas to meet its NDM nomination, only to be repaid for this gas as part of the reconciliation. Arguably this results in risk for the shipper in terms of the relative unit gas costs as well as requiring unnecessary cash flows. This Modification Proposal removes this risk and therefore meets Transco's PGT licence 'relevant objective' by better facilitating the economic efficiency of the system.

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

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

Transco does not believe that the implementation of this Modification Proposal will have any direct impact on the physical operation of the system, although as described above, the NDM demand attribution and allocation process will more accurately reflect actual offtake requirements.

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

Amendment to Transco's UK-Link system is required. Subject to successful implementation of this Modification Proposal, it is planned to incorporate this within the specification for UK-Link Change Request 1575/2. This change represents a major investment to provide a full process solution for isolations.

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:**

The costs to Transco will be treated as ordinary business costs. No extraordinary cost recovery is planned.

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

None identified.

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:**

None identified.

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

Major functionality changes to Transco's UK-Link system are required. It is also possible that shippers will need to amend their systems. It is planned that, subject to implementation of this Modification Proposal, the changes will be implemented as part of UK-Link Change Request 1575/2 in September 1999.

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

Shippers will benefit from the implementation of this Modification Proposal as they will no longer be required to source gas to meet their NDM nominations in respect of isolated only meter points.

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

None identified.

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:**

None identified.

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

Advantages:

This Modification Proposal enables the NDM demand attribution and allocation process to be more representative of the true offtake requirements of each shipper. This in turn reduces the quantity of gas processed through reconciliation.

Disadvantages:

None identified.

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

Six representations were received in respect of this Modification Proposal. Five were supportive and one was conditionally supportive.

One respondent makes reference to an argument that the only incentive for shippers to withdraw from isolated supply points is to include them in NDM demand attribution. This respondent notes that this is not true in that Transco will continue to levy capacity charges for isolated only sites. Transco concurs with this view in that the continued application of these charges is the main incentive for shippers to withdraw from an isolated only supply point.

A further respondent suggests that Transco should provide a solution sooner than its proposed date of 'not prior to September 1999' as this subject has been debated extensively at the SPA/Metering Workstream for many months. Transco acknowledges that the principle has been under discussion in the Workstream for sometime but would stress that the reason for this is based on industry concerns with regard to the large number of supply points which have been isolated only for periods in excess of six months.

Customers have noted that there is a risk that the modification will incentivise shippers to keep supply points in an isolated only status thereby retaining ownership by applying the confirmation objection facility where any attempt is made by another supplier to assume ownership. Transco is sympathetic to customers concerns and is supportive of measures currently underway to significantly reduce the volume of isolated only sites remaining on individual shippers portfolios. Transco intends to provide listings of isolated only portfolios in the expectation that shippers will continue to undertake this activity. Progress will be regularly reviewed at the monthly Transco Customer Portfolio Management (CPM) industry forum.

With regard to the respondent's comment regarding an earlier delivery of the solution, this is not possible as the required system functionality is a major development which has to be undertaken in conjunction with other components of the strategic solution for isolations scheduled for implementation in September 1999.

One respondent comments that their support for this Modification Proposal is contingent on further action being taken to stop the isolation of meter points by shippers without their withdrawing from them. The respondent suggests that the modification should be delayed until such time that a complimentary proposal is brought forward that limits the amount of time shippers can isolate sites without withdrawing except in circumstances where they have the end customers express agreement. Transco believes that the possibility of time limiting the isolation only status should be considered once work by shippers in reconciling their isolated only portfolios and taking action to reduce numbers is complete. Transco believes that once numbers have been reduced, shippers will be more able to effectively manage their isolations only portfolio. Transco, however, suggests that the time limiting option should be retained as a live topic and be considered as an agenda item at the

August 1999 meeting of the SPA/Metering Workstream, when further statistics should be available.

The above respondent further comments that it does shippers no harm to face some commercial liability from the fact that 'they have all these isolated sites which they appear unable to resolve'. Transco believes that the commercial liability already faced by shippers should be sufficient incentive to withdraw. Transco suggests that the large number of sites registered as being isolated only is an historic anomaly and believes that as there is now a greater understanding in the community of the benefits of withdrawal, the number of sites registered as isolated only will fall.

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

Not applicable.

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:

Not applicable.

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

The development and implementation of UK-Link Change Request 1575/2.

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

Subject to final confirmation of the release date for UKL1575/2, this Modification Proposal should be implemented with effect from September 1999.

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommends that this modification is implemented in accordance with the above timescale.

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:

Principal Document

New Paragraph:

Delete G3.4.3 Replace with:

"G3.4.3

" In the case of a NDM Supply Meter Point which has been Isolated (and unless and until it is reconnected) NDM Supply Meter Point Demand will cease to be determined in respect of that NDM Supply Meter Point in accordance with Section H2 ."

Paragraph E7.2.2(c)

Add the text:

“:In determining the User LDZ Aggregate AQ, no account shall be taken of Smaller Supply Points to which Section G paragraph 3.4.3 applies.”

Signed for and on behalf of Transco.

Signature:

TD

Tim Davis
Manager, Network Code

Date: 15 May 1999

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 0322, version 1.0 dated 14/05/99 be made as a modification to the Network Code.

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

Signature:

RACW

Director of Transportation Regulation

Date:

12/8/99

18th September 1999

The Network Code is hereby modified, with effect from _____, in accordance with the proposal as set out in this Modification Report, version 1.0.

Signature:

[Handwritten Signature]

Process Manager - Network Code
Transco

Date:

16/8/99

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.

: