FINAL WORKGROUP REPORT
Modification Proposals 374/374a - Cost Reflective Charging for Loads in EUC9 Category

SUMMARY

In November 1999, British Gas Trading (BGT) raised a Modification Proposal to address concerns over the treatment and impact of "Very Large NDM loads". There were about 50 NDM loads above 58.6 GWh/yr which comprised End User Category 9 (EUC9). BGT's concerns were that:

- The treatment of these loads totalling about 5000 GWh/yr can distort gas allocations for "real" NDM loads; this would be a particular problem if there is a cluster of such loads in any LDZ and/or if the assumed load factors are significantly wrong.
- As such loads are treated as having load factors of about 70%, based on about 140 large datalogged loads which may have little in common with the "very large NDMs", the shippers with such loads may not be paying a fair share of capacity or energy-balancing charges; this would mean that other shippers and other gas users are bearing excessive transportation and energy-balancing charges and subsidising the shippers with "EUC9" loads.

The Modification also proposed that a Workgroup should be created to consider whether stronger incentives should be placed on the shippers concerned, to encourage them and the end-users to convert the loads to DM status. The aim was that a different and fairer regime would apply to any loads in EUC9 as from 1 October 2000.

A Workgroup was created to consider and advise on the issues raised. This report summarises the outcome of its deliberations:

a) A regular monthly monitor of loads in EUC9 for energy-balancing purposes has been introduced and is presented to the Energy & Capacity Workstream and 'AQ Review Update'.
b) There is little evidence of EUC9 sites being cross-subsidised overall in energy-balancing and transportation costs to any significant extent and the Workgroup does not recommend any financial incentive or disincentive.
c) The workload involved in deriving individual load factors for EUC9 loads would not be justified; the Workgroup therefore focused on systems to ensure that EUC9 loads convert to DM status as rapidly as possible.
d) Transco's CPM team are to pay special attention to the EUC9 sites and the nominations, to ensure that where a shipper's nomination fails, the shipper understands clearly and quickly what has to be done to ensure a DM renomination succeeds.
e) The Workgroup is concerned that the domestic AQ review this year might generate a substantial number of major changes in AQs, some pushing smaller loads into EUC9 (although some may also come out of EUC9); hence Transco should pay particular attention to loads whose future AQs are estimated at above 58.6 GWh. Where the estimated AQ is less than 50% or greater than 200% of the current Annual Quantity, the Code (G1.6.13 b(i)) does allow an extended period for the appeal process for resolution of manifest errors, in addition to the standard AQ amendment window.
f) Monitoring of CSEPs with an individual AQ greater than 58.6 GWh/yr is a key issue, mainly because such loads are not managed under Transco's Network Code. If there is, or is likely to be, any form of cross-subsidy, it may be appropriate to consider a Code Modification.
g) Where a site with no datalogger is in or moves into EUC9, Transco will aim to have a datalogger installed within 3 months; and where a site with a datalogger is in or moves into EUC9 or a site in EUC9 gets a datalogger, Transco will pursue the shipper concerned with

the aim of prompt renomination to DM status; however, it is recognised that the timescales for the completion process are not entirely Transco-dependent, and hence delays may occur as a result of action outside Transco's control.

h) Transco have no formal standards of service relating to datalogger installation: the Workgroup agreed that this should be drawn to the attention of the SPA Workstream.

i) Transco will pursue datalogger installation (including the installation of cellular dataloggers) internally and will report any sites where such an installation is outstanding for more than 3 months from the time the installation process is initiated.

BGT has indicated it will withdraw Modification Proposal 0374 if -

i) A suitable control/monitoring process is implemented.
ii) A suitable process and deadlines for converting (future) NDM loads with AQs over 58.6 GWh to DM status (or to other EUC NDM categories) are in place.
iii) The above processes can be seen to be eliminating the existing EUC9 NDM loads.
iv) The Modification Proposal appears unlikely to trigger further or more rapid progress.

If the above conditions are met, there is nothing to be gained by pressing the original Modification Proposal to any form of written consultation or by pressing for any form of financial incentive/disincentive.

The Workgroup has made good progress, and the latest data shows that, as at 1April 2001, there are 15 EUC9 loads, with an aggregate AQ of 1,386 GWh, compared with 31 loads with an aggregate AQ of 4,398 GWh on 1 October 2000. The aggregate AQ was about 5000 GWh (51 loads) at the time when the Proposal was raised, and by the end of the last Gas Year (30 September 2000), the equivalent figure stood at 844 GWh (6 loads).

The Workgroup recommends that the Modification Proposals need not be implemented. BGT have stated that it will consider withdrawing the Modification Proposal if the number of EUC9 loads is small and the processes in place appear to be facilitating and promoting prompt conversion to DM status (or resolution otherwise if appropriate).

The Work Group asks Ofgem to ensure that similar rules to "discourage" large NDMs are included in other Connected System Operators' Network Codes.

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1 BACKGROUND

British Gas Trading (BGT) raised concerns at Demand Estimation meetings in 1998 and 1999 over the treatment and impact of "Very Large NDM loads" - about 50 NDM loads over 58.6 GWh/yr which comprise End-User Category 9 (EUC9).

BGT's concerns were that:

- The treatment of these loads totalling about 5000 GWh/yr can distort gas allocations for "real" NDM loads; this would be a particular problem if there is a cluster of such loads in any LDZ and/or if the assumed load factors are significantly wrong.
- As such loads are treated as having load factors of about 70%, based on about 140 large datalogged loads which may have little in common with the "very large NDMs", the shippers with such loads may not be paying a fair share of capacity or energy-balancing charges; this would mean that other shippers and other gas users are bearing excessive transportation and energy-balancing charges and subsidising the shippers with "EUC9" loads.

The Network Code envisages (G1.5.2) that all Supply Meter Points with an AQ greater than 58.6 GWh shall be "Daily Read" unless (G1.5.4) Transco determines that "it would not be practicable or economic for Supply Meters at a particular Supply Point to be Daily Read".

In October 1999, Transco wrote to shippers with EUC9 loads to ask that they submit a renomination for these Supply Points "with a GNT of DM as soon as possible". Code rule G1.11.2 says that "the Registered User shall make a Supply Point Reconfirmation to give effect to such [a change]….. not more than 3 months after the relevant date". However the Code provides no sanction if shippers choose not to do so.

BGT raised Modification Proposal 0374 (Appendix 1) to ensure the issues were addressed.

Transco thereupon raised an identical Modification Proposal 0374a to facilitate wider consideration of the issues raised and appropriate measures, as "shipper" modifications can only be implemented (or rejected) "as written" whereas "Transco" modifications can be developed and improved.

2 ORIGINAL MODIFICATION PROPOSALS

The aim of Modification Proposal 0374 was that a different and fairer regime would apply to any loads in EUC9 as from 1 October 2000. This would give shippers/users who might previously have no incentive to convert an "EUC9" load to DM but would wish to avoid a more cost-reflective NDM treatment (ie who might instead prefer to have the loads datalogged by October) sufficient time to pursue that option.

The Modification also proposed that the Workgroup should consider whether stronger incentives should be placed on the shippers concerned to encourage them and the end-users to convert the loads to DM status.

Some new loads over 58.6 GWh/yr may emerge which may be initially (or for some extended period) treated as NDM, and some existing NDM loads may in future be deemed to have an AQ over 58.6 GWh/yr. The Modification addressed these cases too.

The Modification specifically proposed that:

i) Any remaining "very large NDM" (EUC9) loads form a new "pseudo DM" category, with each load individually modelled based on its meter readings and an assumed within-week profile (which, for example, might be derived for each load from DM loads with a similar SIC or from all DM loads above 58.6 GWh/yr).
ii) The costs of such modelling and any systems changes should be charged to the loads concerned (this would require a pricing proposal in due course).
iii) Where new loads would have AQs above 58.6 GWh/yr and no datalogger or an existing NDM load is estimated as having an AQ above 58.6 GWh/yr, then until either the AQ is reduced to below 58.6 GWh/yr on appeal or the load's profile and load factor can be estimated as above, the load should be treated as falling within the EUC1 category for the relevant LDZ, i.e. it would be treated as having the domestic load factor for that LDZ.

It was argued that a fairer cost-treatment, based on the above or any better approach the Workgroup might identify, would in itself act as a very valuable incentive to get shippers to transfer such loads to DM status.

The Modification proposed that a Workgroup should be created urgently to consider the issues and recommend a suitable treatment by 1 February 2000 (possibly with alternatives if no consensus is reached), so that Transco could carry out necessary implementation (including systems work) by August 2000 in parallel with the annual NDM review. It suggested that the issue should be progressed primarily as an "Energy Balancing" issue, but with reports to the Capacity and Supply Point Administration Workstreams and to the Demand Estimation Steering Committee.

The purpose of the proposal was "to protect shippers and gas users from inappropriate charges and cross-subsidy", by giving the Code better rules to ensure that risks of cross-subsidy are eliminated or minimised.

3 WORKGROUP MEETINGS AND MEMBERSHIP

The Workgroup met on 24 January, 9 February, 10 March, 4 April, 11 May, 9 June 2000, and 16 February 2001.

The Workgroup members were:

Transco - Paul Rogers (Chairman for first three meetings), Shafqat Ali (Chairman for last four meetings), Chris Burston
Scottish & Southern - David Jessopp
Total Gas Marketing - Brian Horton
TXU/Eastern - Lorane Tilbrook
BGT - Graham Pratt, Tom Welch

Peter Bowen, Dave Chalmers and Rohan De Silva, all of Transco, also attended some meetings.

4 TERMS OF REFERENCE

The Modification Panel had accepted as the Workgroup's Terms of Reference:

i) Investigate the impact of large NDM sites on NDM demand attribution.
ii) Examine the transportation and energy balancing impacts.

iii) Examine current User performance in relation to Network Code obligations.
iv) Examine alternative solutions to encourage better performance.
v) Recommend an appropriate incentive mechanism if required.
vi) Provide a Workgroup Report to the Modification Panel by April 2000.

TXU/Eastern proposed that the Workgroup should also:

- Evaluate processes for amendment of Supply Point status to ensure any special circumstances are covered.
- Investigate whether any form of reconciliation is necessary retrospectively
- Establish clear prospective guidelines in respect of green-field supply points (with the suggestion that "virgin" sites might have data transfer via a cellular phone link if it cannot immediately be datalogged through a BT line).
- Examine the impact or future impact on CSEPs (especially to ensure there is no loophole in the system whereby a shipper could connect an EUC9 load onto a CSEP if it could no longer connect directly to the Transco system).
- To consider the onus to reclassify Supply Points.

The Workgroup agreed to address all these aspects.

5 DISCUSSION AND ANALYSIS

5.1 Number of EUC9 Loads and the Scale of the Problem

Initially, there were some difficulties in identifying the number of EUC9 loads and therefore their total load. There had been about 50 loads above 58.6 GWh/yr with NDM status until late summer 1999, treated as EUC9. Transco believed all these "EUC9" loads could and should be DM.

In January 2000, Transco reported that following their instruction last October to shippers to address the status of EUC9 loads, the number of such loads had reduced to 30, spread over 11 shippers, 2 shippers having six each. There were EUC9 supply points in every LDZ except South-West and Wales North; North-Western had a particular concentration. Of the 30 loads, 7 were awaiting dataloggers to be installed and would be DM "soon". The other 23 had dataloggers installed. Some of these 23 had changed shipper recently.

Later, an updated "status" chart suggested that the number of EUC9 loads had declined as follows -
at 1 February – 18, at 17 February – 17, at 6 March - 11

However Transco explained that they now had three non-matching lists of "EUC9" loads, and the above totals excluded a number of loads still in EUC9. The Workgroup agreed that all analyses should start with the loads which, at the reporting date, are in EUC9 for energy-balancing purposes (with no exclusions), with this total divided into categories such as "awaiting shipper action" and "awaiting Transco action" and so on.

By May 2000, Transco reported that the Aggregate AQs in EUC9 represented 1% or less of each LDZ's total NDM AQ (averaging 0.35%); the Workgroup agreed that further analyses by LDZ were not needed.

The Workgroup agreed there should be a regular monthly monitor presented to the Energy & Capacity Workstream and AQ Review forum, reflecting loads in EUC9 for energy-balancing

purposes. Transco's CPM Customer Operations have overall responsibility for reporting on the EUC9 sites. The following tables show the monthly reports for Gas Years 1999-2000 and 2000-2001:

Monthly Monitoring Report for EUC9 Loads for Gas Year 1999-2000							
	1 Apr 2000	**1 May 2000**	**1 Jun 2000**	**1 Jul 2000**	**1 Aug 2000**	**1 Sep 2000**	**1 Oct 2000**
Total AQ (GWh)	3,063	2,445	1,996	1,906	1,847 (8,671)	1,421	844
Number of Supply Points	30	24	20	19	17 (63)	12	6
Number of Shippers	10	8	7	7	6 (17)	5	4
Additions since previous month	0	0	0	0	0 (46)	0	0
Deletions since previous month	2	6	4	1	2	5	6
Number of Supply Points awaiting Transco action	5	4	3	1	0	0	1
- of which awaiting action for 3 months or more	n/a	n/a	3	1	0	0	0
Number of Supply Points awaiting Shipper action	25	20	17	18	17	12	5
- of which awaiting action for 1 month or more	n/a	n/a	13	11	11	8	2

The above table shows that, at the start of the monitoring process, there were 30 EUC9 loads with an aggregate AQ of 3,063 GWh, and by the end of the Gas Year, only 6 loads with an aggregate AQ of 844 GWh remained; this is equivalent to an 80% reduction in the number of loads and 72% reduction in the aggregate AQ.

The Workgroup requested that the monthly monitor should also capture loads whose estimated AQ, as a result of AQ Reviews, is above the 58.6GWh; such loads should be shown as a supplementary note or a footnote in the months between the AQ Review and 1 October each year. In the above table, the figures in brackets include new loads (46) resulting from AQ2000 review.

Monthly Monitoring Report for EUC9 Loads for Gas Year 2000-2001							
	1 Oct 2000	**1 Nov 2000**	**1 Dec 2000**	**1 Jan 2001**	**1 Feb 2001**	**1 Mar 2001**	**1 Apr 2001**
Total AQ (GWh)	4,398	3,326	2,990	3,184	2,333	1,733	1,386
Number of Supply Points	31	25	24	24	21	19	15
Number of Shippers	13	11	11	11	12	11	9
Additions since previous month	0	0	0	0	2	1	0
Deletions since previous month	5	6	1	1	5	3	4
Number of Supply Points awaiting Transco action	0	0	0	0	1	1	1
- of which awaiting action for 3 months or more	0	0	0	0	0	0	0

Number of Supply Points awaiting Shipper action	25	25	24	24	20	18	14
- of which awaiting action for 1 month or more	19	17	21	21	11	14	12

The table shows that, at the start of the Gas Year (1 October 2000), there were 31 EUC9 loads with an aggregate AQ of 4,398 GWh, and at 1 April 2001, there were 15 loads with an aggregate AQ of 1,386 GWh left in EUC9; this is equivalent to a 48% reduction in the number of loads and 68% reduction in the aggregate AQ.

Transco provided a "time analysis" for 51 supply points which were in EUC9 at 1 October 1999 showing when they became datalogged, when the loads changed shippers (where relevant) and when they were nominated as DM or de-aggregated. The analysis showed that:

- 19 supply points had moved to DM over 58.6 GW/yr
- 3 supply points had become DM below 58.6 GWh/yr
- 14 supply points had become NDM below 58.6 GWh/yr
- 15 remained as NDM loads over 58.6 GWh/yr in EUC9

5.2 Renominations to DM Status

Transco first wrote to shippers on 26 October 1999, requesting renomination of EUC9 loads to DM status. The affected shippers were also prompted by Account Management but the shipper response was not positive in all cases. Transco suggested that this may be due to inadequate shipper administrative processes rather than pursuit of commercial benefit.

It was agreed that pressure should be maintained, and that Transco would again write to the shippers, with Ofgem being invited to follow up in the absence of a favourable/positive response from the shippers concerned. By February 2000, Transco reported that it had typically contacted EUC9 shippers on up to six occasions. Such contacts were made at both officer and managerial levels in order to ensure that the ‘right’ shipper contact had been informed; however, communication with the ‘right’ shipper contact could not always be guaranteed.

The Workgroup agreed that Transco should then write to the EUC9 shippers along the lines of:

- "you have the following 'EUC9' loads -
.....
- we wrote to you on ..... and ..... to ask you to convert these to DM status with no apparent action
- we now request that you initiate nomination to DM status forthwith
- if you are unwilling to do so, for whatever reason, we must ask that you explain to us within seven days the reason for the lack of action
- you should be aware that failure to nominate these loads as DM where validated datalogger readings are available is a contravention of the Network Code and will be reported as such to Ofgem"

If there were no positive response within seven days (i.e. in the event that shippers fail to respond positively), Transco would press Ofgem to act quickly. The issue would also be raised at the monthly CPM Operations Meetings with the shippers involved; in the absence of a response, the

issue would be escalated to a higher level within the shipper organisation concerned. This was described as "the twin-track approach".

The "chasing" letters went out to shippers on or around 22 February 2000. All except one shipper responded positively by pursuing renomination to DM status.

One shipper with four EUC9 supply points appeared to decline Transco's request to progress the matter. Transco considered further escalation or early involvement of Ofgem inappropriate at this stage, and investigated the matter internally. The investigation revealed that in two out of the four cases, the shipper had attempted to renominate but the renomination had failed because the system insisted that the site is NDM. The Workgroup considered that, in such cases, if the shipper is failing to nominate correctly, then Transco CPM team should 'help' them. Transco should ensure that the Advocate teams within CPM intervene in such circumstances to assist if this is likely to solve the problem; however, it was recognised that the overall responsibility for correct input lies with the shipper.

In the third case, the shipper had agreed to renominate whilst in the fourth case, it was disputing the AQ. The shipper representatives asked that Transco take this forward with the shipper quickly.

The Workgroup then agreed that all ten shippers identified as having EUC9 loads at 1 April 2000 should be pursued more proactively, especially where they had previously been reported as having any EUC9 loads.

The Workgroup has proposed that Transco's CPM team should adopt processes whereby they pay special attention to the EUC9 sites and the nominations, to ensure that where a shipper's nomination fails, they clearly and quickly understand what has to be done to ensure a DM renomination succeeds. Transco have agreed to this, although this does not relieve shippers of their responsibility for correct input in the first place.

All 30 EUC9 sites as at 1 April 2000 had been reported to the CPM team for action.

Transco reported that some of the loads previously in EUC9 had moved out as a consequence of de-aggregation rather than having dataloggers installed. Others moved out as a consequence of appeals after the AQ Review. The Workgroup regard these as "successes" in that the loads are more correctly treated than previously.

5.3 Financial Incentives and/or Penalties

Transco were not convinced there is any evidence of clear commercial benefit for the shippers with EUC9 loads. Transco tabled graphs showing that the 1998/9 WARs (Winter-Annual Ratios) for 45 EUC9 loads were typically around 0.3-0.35, and none exceeded 0.4. A level of 0.33 would reflect "flat" (100% load factor) load, though, as 1998/9 was a warm winter, a lower level would have been expected for "nominally flat" load. This showed that these loads tend to have quite large load factors. Hence the Workgroup agreed there is no evidence of these 45 EUC9 sites being cross-subsidised overall in energy-balancing and transportation costs to any significant extent.

It was then suggested that the biggest benefit to EUC9 shippers/users is avoiding DM nomination activity and in reducing exposure to extreme cash-out prices, largely in the event of shipper/user error, and that these benefits may be significant to shippers. To investigate this, Transco looked

specifically at five EUC9 supply points with datalogger readings over the 1998/9 Gas Year, to investigate:

- How the deemed daily NDM demands compare with the daily datalogger readings
- Whether the daily allocations for the sites differ greatly (if so, the shipper would avoid the risk of being outside its tolerance on DM nominations it would otherwise provide)
- Whether the implied SOQ had been exceeded, which was unlikely as the winter was warm.

Transco reported that, assuming the daily input quantities were in line with the NDM allocations, the analysis suggested that having the loads in EUC9, rather than as DM, gave benefits of 0.6-1.5% for the five loads (on daily gas costs). It was agreed that this analysis was sufficient to suggest that there are benefits from retaining EUC9 status but these are small, and that the Workgroup's focus should be on ensuring that EUC9 loads convert to DM status as rapidly as possible.

Nevertheless the Workgroup considered that a simple financial incentive to convert to DM status could be desirable if a suitable form could be devised. One possibility advanced was using the WAR values to define a supplemental transportation charge, say based on the difference between an actual/estimated WAR value and the norm/average for large NDM loads. It may be possible to use one year's WAR results to determine a supplement payable for EUC9 loads throughout the following supply year or until converted to DM status. However, the WAR information previously tabled suggested that for many EUC9 loads any cost-reflective treatment would be slight.

It was agreed that it is not practical or reasonable to use actual WAR levels to define a retrospective supplement: the shipper may have entered into an agreement in good faith and be unable to recover the supplement, or there may be a change in shipper.

Another possibility considered, but discounted, was that loads in EUC9 should from October contribute to "smears" of energy-balancing costs but not enjoy "smears" of surpluses (their "shares" could be retained by Transco to reduce "k").

A third possibility floated was that any "EUC9" loads at 1 October 2000 be treated as EUC4 (rather than EUC1 as originally suggested in the Modification).

These remain as possibilities for consideration but the Workgroup has agreed not to recommend any such route for implementation.

The Workgroup considered the issues surrounding retrospective charging if reliable data were available, and if it showed clear under-charging ("consistent abuse"). It was agreed that proving intention on any shippers' part would be difficult, and shippers could reasonably oppose any penalty or extra charges. Retrospective charging was therefore dismissed as a viable option.

5.4 Individual Load Modelling

The load factor assumed for large loads is very important. Using the wrong load factor affects the assumed peak-day demand, i.e. the SOQ and the resulting capacity charges: too favourable a load factor means the capacity requirements and costs are understated. Also, using an NDM model with the wrong implied load factor affects the balance of gas attributed during the year: too favourable a load factor would mean more summer gas to an end-user and too little winter gas, again understating true costs. Hence the Modifications address the issue that an inappropriate load factor

could result in a cross-subsidy in favour of such loads from other NDM loads, particularly from the domestic sector.

BGT's initial concept proposed individual modelling of EUC9 loads, as carried out in British Gas for many years before and after the introduction of competition. BGT argues that large loads are likely to distort gas modelling if assumed to have an "average" profile, as when the model applied is based on aggregated daily consumption data for supply points in the relevant consumption range. BGT believe that monthly meter reading data and weather data is sufficient for adequate individual load modelling, but acknowledge that it is necessary to scrutinise the results and apply a "cap and collar" to extreme load factor estimates to remove unrealistic values. From experience of such modelling in the past, BGT believe that this workload would be just a few man-days per year.

Transco's view is that individual models based on limited numbers of monthly consumptions derived from meter read data would probably not provide models any more appropriate or accurate than a model based on aggregated daily consumption data. Moreover, the check procedure of cap and collar on ensuing load factors as suggested by BGT would not necessarily result in more "correct" LFs or costs for individual large loads. Also Transco do not agree with BGT's assessment of required resource and believe that the data requirement for such a task had been underestimated by BGT. Contrary to BGT's opinion, Transco's view is that individual modelling, particularly given the potential problems due to limited data availability, is not likely
to provide significantly better results.

In the light of the WAR band results presented to the Workgroup, which showed that these large loads were generally very flat and thus likely to have quite high load factors, Transco proposed that the workload on individual modelling of EUC9 loads, as was contemplated in the Modification Proposal, was not justified; and the Workgroup accepted this.

5.5 New EUC9 Loads and AQ Reviews

The Workgroup was concerned that the domestic AQ review this year might generate a substantial number of major changes in AQs, some pushing smaller loads into EUC9 (although some may also come out of EUC9). Transco were asked to ensure that all loads where the AQ appears to change by a factor of, say, 10 in either direction as well as any whose AQs are in future estimated at above 58.6 GWh are paid particular attention. Transco’s analyses of EUC9 loads showed clear examples of loads which need to be reviewed and resolved in time to avoid being in EUC9 at the beginning of a new Gas Year; in one extreme case, the 1998/99 AQ (1540Gwh) was manifestly too high, compared with other Gas Years (e.g. 2.2 GWh in 1997/98). This illustrates the circumstances where the Transco AQ team should highlight the site to the Shipper, to allow timely correction of AQ, prior to the close of the amendment window.

Transco’s AQ team should consider whether it is necessary to make additional arrangements, bearing in mind that, in addition to the standard amendment window, an extended amendment window already exists for manifest errors; the AQ of supply points that have recently transferred to another shipper with an incorrect AQ can also be amended outside the standard amendment window.

Transco explained that one existing EUC9 load is believed by the shipper and by Transco to be below the 58.6 GWh/yr threshold (consumption approximately 43 GWh/yr); but the shipper did not appeal against the AQ within the standard amendment window so the load will remain in EUC9 unless the shipper converts it to DM. However the shipper is ‘disputing’ the AQ and Transco can

do little to enforce conversion to DM. In discussing the above, it was suggested that it might be in the community's interests to have an extended amendment window in certain circumstances (e.g. for EUC9 loads). After debate, this was not favoured as it could be seen as giving a benefit to EUC9 loads and shippers that were not available to other shippers. In any case, for loads whose estimated AQs are more than twice or less than half of the Annual Quantity (actual read), the Network Code (G1.6.13 b i) does allow an extended appeal window (1st October to 31st May) to ensure conversion of such loads to DM status.

Last year, as a consequence of AQ 2000, 46 potential EUC9 loads were identified, and the affected shippers were informed of these loads in July so that they could take appropriate action in a timely manner. The shippers had noted that some valuable time had been lost because this information only became available to them two weeks into the AQ amendment window. However, the Work Group agreed that provision of this information to the affected shippers was instrumental in reducing the potential number of EUC9 loads from 46 to 26 by the start of the Gas Year on 1 October 2000.

For the AQ2001 review, Transco will again screen out the potential EUC9 loads and inform the affected shippers as soon as a definitive list of these loads is available. Transco will strive to make this list available to the shippers in the first few days of the amendment window (1 July 2001 to 13 August 2001).

5.6 Datalogger Installation

The shippers on the Workgroup were surprised to learn that Transco have no formal standards of service relating to datalogger installation. The Workgroup acknowledged that this issue is outside the Terms of Reference accepted by the Modification Panel. However, analysis by the Workgroup of the progress in resolution of EU9 queries illustrated that on a number of occasions there appeared to be significant delays in the procurement and installation of datalogging equipment. These delays were considered significant enough to be drawn to the attention of the SPA Workstream, with a recommendation that the datalogger procurement and installation process should be reviewed and consideration given to the establishment of appropriate service standards.

On another related SPA issue, (also outside its Workgroup's specific terms of reference) the Workgroup identified another potential source of delay relating to the provision of telephone links to EU9 and other DM sites.The Workgroup believes that in circumstances where provision of a conventional telephone connection is impractical or unduly delayed, consideration should be given to extending the established (Mod 239) requirement to install, a cellular telephone link at greenfield sites, to cover their provision at all new datalogged installations. The Workgroup noted that cellular connections can normally be installed within one week.

However, Transco informed the Workgroup that it would be losing the current cellular services which involve 'analogue' signal transmission. Because of this, whilst Transco confirmed that it will continue to comply with Modification 239's requirement to install where necessary cellular links at greenfield sites,, it was unlikely that the provision of such links could be extended to include existing sites.

It was also noted that, since, as a last resort, the Code specifies that the sites should be visited each day to obtain a reading, and there should normally be no outstanding EUC9 sites of this nature.

5.7 Impact on Connected System Exit Points (CSEPs)

Monitoring of CSEPs with large non-daily metered components is a key issue if the scope for unfair cross-subsidy is to minimised. The Workgroup agreed that as a matter of principle other Connected Systems Operators should have rules to "discourage" large NDM loads which are similar to Transco's. The Workgroup asks Ofgem to ensure that similar rules are included in other CSOs' Network Codes.

5.8 Other Issues

i. The Workgroup agreed that Transco should not be empowered or expected to nominate EUC9 sites as DM "on behalf of" the shippers concerned.
ii. The Workgroup sought Ofgem's view on:
    - whether having an ongoing EUC9 load which can or does have a datalogger installed is a Code Contravention; if so, whether Ofgem could "instruct" the shipper to renominate and/or support a supplementary charge until DM status is achieved.
    - Regardless of a Code Contravention, whether Ofgem would be likely to support a supplementary charge; if so, whether any such charge would have to be demonstrably cost-reflective or whether it could include a "disincentive" element and could therefore be set at a largely nominal level.
i. Where Transco measures are not having the desired effect, Ofgem were willing to assist in putting pressure on EUC9 shippers to convert the loads to DM but would require convincing evidence before supporting any penalty or incentive to renominate whether or not cost-reflective.

6 TRANSCO PROCESSES

The Workgroup agreed that the processes should have two main strands:

i. Where a site with no datalogger is in or moves into EUC9, Transco will aim to make arrangements to have a cellular link installed, until a BT line has been installed and the datalogger deemed live on the Sites and Meters database. Transco will aim to have datalogger installed within 3 months; The Workgroup, however, recognised that the timescales for completion of the process are not entirely Transco-dependent, and hence delays may occur as a result of action outside Transco's control.
ii. Where a site with a datalogger is in or moves into EUC9, or a site in EUC9 gets a datalogger, Transco should pursue the shipper concerned with the aim that it is confirmed as DM within one month.

Transco have therefore introduced a Monitoring and Reporting Procedure whose key elements are as follows:

a. The AQ team will collate the monthly monitoring information on EUC9 loads and additions and deletions.
b. The Advocate teams will collate the information on sites awaiting Transco action, and advise shippers of what these supply points are, so that the shipper can either agree that a datalogger needs to be fitted, or that the supply point AQ needs to be amended/appealed accordingly.
c. The Advocate Teams will also collate the information on sites awaiting action from shippers.
d. The Advocate Teams will communicate with individual shippers on their EUC9 loads, seeking initial responses and action within 2 weeks, and will escalate the issue in the absence of a constructive response.
e. If the affected shipper does not appear to be progressing the matter, the Account Management will raise the issue at a higher level within the shipper organisation; if the shipper response is still negative, Transco will inform Ofgem.

In addition there will be a "scrutiny and highlighting" process at the time of AQ reviews whereby Transco's CPM team draw the attention of shippers to any loads which would enter EUC9, to encourage timely appeals.

The Advocate team will take the initiative in helping the shipper to get a valid DM renomination where the shipper tries to renominate but fails. The CPM team should actively monitor the "progress" of each EUC9 load through the procedure (including monitoring of flow of data and, if appropriate, chasing the local district office) until resolution, and should intervene to assist in the renomination process in respect of existing or prospective EUC9 loads wherever appropriate. However, it is recognised that the ultimate responsibility for renomination lies with the shipper concerned.

The shippers on the Workgroup argued that the process seems to end on a 'woolly' note as does not include active involvement of Ofgem. The shippers suggested that the following text should be included to reflect this:

"If the shipper has not acted within three weeks of the issue being escalated to Account Management, then the Account Manager will advise Ofgem of the situation and invite Ofgem to consider whether they should approach the shipper directly".

However, Transco's view was that Ofgem would be informed via the presentation of monthly monitor at the Energy and Capacity Workstream as well as at the AQ Review meetings. Hence, there is no need for 'automatic' involvement of Ofgem in the process.

The Workgroup did not reach a consensus on this issue.

Transco will pursue datalogger installation (including the installation of cellular dataloggers) internally and will report wherever after 3 months an installation is uncompleted or awaits validation/verification.

Transco have distributed the procedure to the shipper community and are committed to using it in the future.

7 FUTURE OF MODIFICATION PROPOSAL 0374

Though the original Modification was intended to introduce cost-reflective charging for EUC9 loads, the activities of Transco and the Workgroup appear to be leading to an effective monitoring and escalation procedure, and the Workgroup are unanimous in not wishing to pursue "charging" elements.

BGT sees no advantage to the community in pressing the Modification to any consultation, and will therefore withdraw the Modification once:
- there is a tidy "Closing Report", primarily to act as a reference if concerns surface in future, summarising what has been done and why, and what procedures are in place
- the procedures cover "automatic" datalogger requests for new loads of an appropriate size (eg within Siteworks rules)
- the "escalation process" is clear in respect of a notification to Ofgem once the Transco Account Management teams have done all they reasonably could to prompt action and a shipper is deemed uncooperative
- the "Closing Report" summarises the experiences of and the lessons to be learnt from the 2000 AQ Review

APPENDIX 1

Extracts from Modification Proposals 374/374a

Justification:

Various concerns have been raised by a number of shippers over NDM allocations in early October and in particular over changes in the allocations between September and October. Clearly "AQ issues" are major sources of concern. However there are other issues and this Modification addresses an area which contributes to the uncertainty and errors relating to NDM allocations and where an opportunity for cross-subsidy exists with no sanction.

Though the Network Code envisages (G1.5.2) that all Supply Meter Points with an AQ greater than 58.6 GWh (2 mill thms) shall be "Daily Read" unless (G1.5.4) Transco determines that "it would not be practicable or economic for Supply Meters at a particular Supply Point to be Daily Read".

There are currently 40-50 large "NDM" loads with AQs over 2 mill thms/yr: these loads are assigned to EUC (End-User Category) 9. Loads in this EUC have a load factor based on that of 138 large datalogged loads which may have little in common with the "very large NDM" users.

This treatment of loads totalling probably about 200 mill thms/yr can distort gas allocations for "real" NDM loads. This will be a particular problem if there is a cluster of such loads in any LDZ and/or if the assumed load factors are significantly wrong.

Moreover, as such loads are treated as having load factors of about 70%, the shippers with such loads may not be paying a fair share of capacity or energy-balancing charges. This would mean that the other shippers and other gas users are bearing excessive transportation and energy-balancing charges, and thus may be subsidising the "EUC9" loads and their shippers.

Transco have recently written (26 October 1999) to shippers with EUC9 loads to say "Please submit a renomination for this Supply Point with a GNT of DM as soon as possible". Code rule G1.11.2 says in effect that "the Registered User shall make a Supply Point Reconfirmation to give effect to such [a change] not more than 3 months after the relevant date".

However there is neither a deadline nor any sanction if affected shippers choose not to do so.

This Modification proposes a different and fairer regime which would apply to any loads in EUC9 as from 1 October 2000.

The issue of urgency is to enable a schedule to be publicised quickly so that shippers/users who may at present have no incentive to convert an "EUC9" load to DM but would wish to avoid a more cost-reflective NDM treatment as from 1 October 2000 (i.e. who might instead prefer to have the loads datalogged by then) have time to pursue that option.

Nature of Proposal:

Specifically, it is proposed that a more realistic and more cost-reflective treatment should be introduced as from 1 October 2000 for loads which would otherwise fall into EUC9 (above 2 mill thms/yr). It is proposed that:

i. The remaining "very large NDM" (EUC9) loads form a new "pseudo DM" category, with each load individually modelled based on its meter readings and an assumed within-week profile (which, for example, might be derived for each load from DM loads with a similar SIC or from all DM loads over 2 mill thms/yr).
ii. The costs of such modelling and any systems changes should be charged to the loads concerned - this will require a pricing proposal in due course
iii. Where new loads would have AQs over 2 mill thms/yr and no datalogger or an existing NDM load is estimated as having an AQ over 2 mill thms/yr then until either the AQ is reduced below 2 mill thms/yr on appeal or the load's profile and load factor can be estimated as above, the load should be treated as falling within the EUC1 category for the relevant LDZ, i.e. it would be treated as having the domestic load factor for that LDZ.

(The third element above is for completeness, and is intended primarily to address the possibility that an existing NDM load which has had an AQ below 2 mill thms/yr is estimated as having an AQ above that level: generally the shipper concerned would appeal against the AQ anyway and the load might be given a lower AQ, but a "rule" is needed to specify what would happen in the remote circumstance that an NDM load did actually cross the threshold.)

To this end, the following schedule is proposed -

i. By 15 November 1999, Transco will produce a summary note on the issue, avoiding confidentiality and compliance issues but specifying:

   - the sum of the AQs for such loads
   - the split of this between LDZs
   - for each LDZ the proportion of total NDM load this represents
   - the number of shippers involved
   - the number of such loads for each shipper
   - the sum of the AQs for the three largest shippers
   - general descriptions of what sorts of loads are in this set, what stops them becoming DM, what undesirable impacts the set is likely to have on energy balancing, whether there should be any special review of the metering arrangements for such loads.

ii. A suitable Workgroup should be created urgently, to consider the issues and recommend a suitable treatment by 1 February 2000 (possibly with alternatives if no consensus is reached).
iii. Then Transco will carry out necessary implementation (including systems work) by August 2000 in parallel with the standard NDM review next year.

Note that a simpler but less cost-reflective alternative would be to ensure that the loads remaining in EUC9 have a low load factor, which would act as an incentive for the shippers/users concerned to ensure that the loads become datalogged and treated as "DM": this could however be considered as an alternative to the specific proposal.