Modification Report
Optional LDZ Tariff
Modification Reference Number 0428

Version 4.0

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

1. The Modification Proposal

This modification proposal contemplates the incorporation of the optional LDZ tariff into the Network Code. Transco's proposal to introduc~.the optional LDZ tariffwas the subject of Pricing Consultation Paper PC56. Of gem gave its decision not to veto the proposed change to Transco's pricing methodology on 17 July 2000.

It is proposed that the following changes are made to the Network Code to allow the implementation of the new tariff to take effect:

a) Detennination of the optional LDZ rate for an LDZ supply point

The optional LDZ rate will be defined by the fonnula in the Transportation Statement and is a function of two variables; supply point capacity (SOQ) and distance.

[For reference it is presently:
Optional LDZ Rate = 902 x [(SOQ) -0.834] x D + 772 x (SOQ) -0.717]

i) SOQ

For the purposes of determining the optional LDZ rate, the SOQ used will be consistent with the Network Code rules for all other supply points, i.e :

Firm - the registered supply point capacity

Interruptible
("bottom stop SOQ") - previous year's peak daily consumption

Shared Supply Meter Points (SSMPs) - aggregate SOQ of the "logical" supply points

LDZ CSEPs - aggregate CSEP Capacity plus an element representing the interruptible component (if any)

ii) Distance

Transco will advise as part of the transportation offer, the value of the variable "D". This will be determined as the notional, straight-line distance of a pipeline between the "notional NTS connection point" and the offtake point. This is consistent with the empirical data used to develop the charging function. Each notional NTS connection point and nominated exit point will be given an eight figure Ordnance Survey grid reference number and the distance between the connection point and exit point calculated to an accuracy of +/- O.O5km. The grid reference number of the exit point will represent either the curtilage of the nominated premise or the point of offtake from the Transco system, whichever gives the shorter distance. The grid reference of the notional NTS connection point will represent the closest point on the NTS to the exit point. Rules will be introduced that will provide shippers the opportunity to dispute figures given by Transco. Transco will provide the nominating shipper the grid references used in determining the distance, the value of the distance itself, and the determined optional LDZ rate.

b) Set Up Rules

The optional LDZ tariff will be available to both the incumbent and competing shippers at any supply point, and will be obtained using a nomination, offer and confirmation process. The SPA rules for requesting and obtaining an optional LDZ rate will match the existing SPA rules as closely as possible.

Transco will be able to advise the shipper of the optional LDZ rate, the distance between the connection and exit points, the eight figure Ordnance Survey grid references of the relevant points and the supply point capacity of the system exit point provided the shipper supplies it with the following information: the point of offtake and, in certain circumstances, a revised grid reference for the connection point, supply point or CSEP.

In the case of a supply point, a shipper wishing to nominate a site on the optional LDZ rate will inform Transco of its intention as part of its submission of a standard supply point nomination in line with current practice. Transco will issue an optional LDZ offer as a supplement to the standard offer.

The procedures to deal with CSEPs will reflect the above process. Essentially, to obtain an optional LDZ offer the shipper will simply be required to supply Transco with the same information as required for a supply point. If the shipper requires the optional LDZ rate to apply, it will advise Transco at the time it becomes a User at the CSEP.

All the above transactions associated with initialising the optional LDZ tariff at an offtake will be managed "offline" from the UK-Link SPA system.

Time-scales for transferring to this tariff will normally be consistent with the supply point transfer process. Exceptions will be when the specified exit point needs to be removed from the sites and meters database for administrative purposes. In this case, up to 2 months (to check) notice may be required before the tariff can be applied. Also, where an incumbent shipper at an exit point wants to transfer to the optional LDZ tariff, the confirmation effective date should be the first day of a month. Failure to request such a date will result in Transco revising the transfer date to the first of the month following the requested date.

c) Other

i) Reconciliation

Reconciliation Charge adjustments will not apply in respect of the optional LDZ rate.

ii) LDZ supply point ratchet charges/ Overrun charges

The supply point ratchet charge for supply points on the optional LDZ rate, and the overrun charge in respect of CSEPs on the optional LDZ rate, will be a function of the optional LDZ rate rather than the standard LDZ charge.

2. Transco's Opinion

Transco is in support of this modification proposal.

Following the Of gem decision not to veto Transco's proposal to introduce an Optional LDZ Tariff, which was the subject of Pricing Consultation Paper PC56, Transco considers it important to introduce the necessary changes to the Network Code to allow the implementation of the tariff.

The consultation exercise for Transco' s pricing proposal generated significant support from almost all respondents to the consultation, and early implementation is important to achieve the efficiency benefits that were identified in the pricing consultation paper.

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

If implemented, the proposal should permit the introduction of the optional LDZ tariff which has been developed to reduce the likelihood of users bypassing the LDZ network and connecting directly to the NTS. The proposal should therefore encourage utilisation of the system thus furthering the efficient and economic operation of the system.

Transco also believes that the introduction of the proposed optional LDZ tariff will provide a charging methodology that is more appropriate in reflecting the LDZ costs involved in transporting gas to large end-users located close to the NTS.

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

a) implications for the operation of the System:

Transco is not aware of any implications for the operation of the System.

b) development and capital cost and operating cost implications:

The development required to Transco's systems would be administrative in nature and any resulting costs are not expected to be significant.

There would be a minor increase in operating costs due to a small number of sites being transferred from the Sites and Meters database on to the Unique Sites Billing System.

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:

There would be no change to transportation charges to reflect the administration processes following implementation of the modification proposal, and any additional costs will be absorbed within the price control.

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

This modification is required to implement the Optional LDZ Tariff, established through the Pricing Consultation paper, PC56. If implemented, and assuming all users that are expected to benefit from the optional LDZ tariff choose to take up the proposed tariff, the proposal would reduce transportation revenue to these sites by approximately £1.5m in comparison with the application of the standard LDZ charges. This "lost" revenue would be recovered through the marginal upward adjustment of standard LDZ charges for all other users from 1 October 2000.

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

It is anticipated that there would be no change to the level of contractual risk to Transco as a consequence of implementing this proposal.

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

The procedures developed as a result of this modification would not impact on the main current UK-Link systems. There would be some parameter changes required within the Unique Sites Billing System.

Transco is not aware of any such implications for shippers' systems.

7. The implications of implementing the Modification Proposal for Users

Those Users shipping to a number of large loads situated close to the NTS may benefit from lower LDZ transportation charges.

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

End consumers may benefit indirectly from a reduction in the price of delivered gas that should accompany a reduction of transportation charges. There would be a small impact on LDZ transportation charges for other users, although it is anticipated that any increase would be limited to around 0.1 %.

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

Transco is not aware of any such consequences.

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

Advantages:

The pricing benefits indicated during the pricing consultation will be available to shippers.

Disadvantages:

A small number of sites will have to be transferred from the Sites and Meters database and on to the Unique Sites Billing System in order to be charged on the optional LDZ tariff.

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

Summary

Transco received six responses to the Modification Proposal. The respondents were:

Shippers

British Gas Trading	BGT
Scottish & Southern Energy	SSE
BP Gas Marketing	BP
Innogy	In
Aquila Energy	Aq

User or User Associations

Association of Electricity Producers	AEP

All respondents support the modification, although one respondent (SSE) limits its support to the principle of the modification proposal only, and re-iterates its opposition to the rationale supporting the pricing methodology.

Issues raised
Delay in raising this modification

Three respondents (SSE, AEP, In) express concern at the time taken by Transco to raise this modification proposal in light of the timing of Ofgem's decision not to veto the associated Pricing Consultation Paper, PC56. They comment that this means that the earliest start date for the charge will be 1 November, one month after other charges have been adjusted to accommodate this change. SSE and AEP argue that Transco will benefit in receiving higher revenues for one month for the large LDZ sites affected, but that customers will not see any benefits until one month later. They further suggest that Transco should consider backdating the reduction In charges for relevant sites to 1 October and that the Network Code drafting could be amended to permit this.

Transco's response

Transco acknowledges that an implementation date for the proposed new tariff of 1 October 2000 would have been preferable in order to deliver the anticipated benefits of the new tariff to customers at the earliest opportunity. However, in Transco's view the modification proposal has been raised at the earliest opportunity following the consideration of all development issues associated with the administration of the tariff and the drafting of the legal text. Transco does not consider it prudent or economic to undertake such development work in advance of an Of gem decision and it believes an earlier implementation date would have been unlikely. Transco comments in its Transportation Charging Statement for 1 October 2000 that "Following (pricing) consultation, an optional LDZ tariff is to be introduced after the necessary Network Code modifications have been agreed."

In respect of any impact on transportation charges as a result of the later implementation date, Transco is expected to over-recover against its allowable revenue by approximately £40,000 assuming full take-up of the tariff. This is expected to have an insignificant effect on general transportation charges.

Transco does not support the suggestion to introduce the proposed tariff on a back-dated basis as it does not agree with the principle of retrospective changes to the Network Code.

SPA processes.

Two respondents (AEP, In) comment on the passing of information to shippers and end-users on whether certain sites are likely to benefit from the proposed tariff. One respondent (AEP) states that it is not aware of any mechanism to alert customers, shippers and suppliers and argues that this may undermine competition in gas supply. It suggests that Transco advises customers directly, or shippers as part of the transportation offer. One respondent (In) suggests that Transco passes on the information to the incumbent shipper. One respondent (BGT) requests clarification of the nomination/confirmation processes.

One respondent (AEP) expresses concern that the drafting does not provide a means whereby the shipper may withdraw from the optional tariff and return to the standard

LDZ charges should LDZ transportation charges change.

One respondent (BGT) comments on the reference made by Transco to rules that are to be developed in order that a shipper may dispute figures that are given by Transco. The respondent comments that it is unaware of these rules and that it has not seen them.

Transco's response

Transco acknowledges the importance of indicating those sites that are likely to benefit from the proposed tariff. To this extent, it intends to write to the existing shipper of each relevant site shortly following, and subject to, Ofgem's decision on the modification proposal. A shipper will request an offer for a site it believes could benefit from the proposed tariff by sending a site nomination to Transco which will subsequently issue a site offer to the requesting shipper. The administrative processes and rules are in accordance with the Network Code SPA rules and are consistent with those adopted for the optional NTS commodity tariff.

In respect of the rules for withdrawing from the optional LDZ tariff, shippers will be required to follow the standard SPA process (nomination, offer, confirmation) to revert to standard LDZ charges.

In respect of provision for shipper disputes, Transco has put forward draft legal text (ref. Section B 4.6.9 vi. (c) and Section G 2.4.12) which provides for a shipper to dispute the grid reference provided by Transco for a LDZ specified exit point and for the shipper to provide an alternative grid reference with supporting evidence.

Effect on General Transportation Charges

One respondent (BGT) questions the statement in section 4d of the Draft Modification Report that the proposal would reduce transportation revenue by £1.5m and states that Transco would instead re-balance its LDZ charges to recover the lost revenue through the K factor.

The same respondent (BGT) states that the adjustment to standard LDZ charges will have an impact on other users than the beneficiary sites.

Transco's response

Transco's statement in section 4d of the Draft Modification Report refers to the anticipated reduction in transportation revenue (approximately *£1.5m) from those sites* expected to benefit from the proposed tariff, rather than a reduction in overall revenue. As the respondent comments, this "lost" revenue would be recovered through the marginal upward adjustment of standard LDZ charges for all other users from 1 October 2000.

Transco acknowledges that the introduction of the proposed tariff would have an impact on LDZ transportation charges for other Users, although it is anticipated that any increase would be limited to around 0.1 %.

Other Comments

One respondent (BGT) asks whether there would be any changes to shippers' and Transco's systems, particularly how would such sites be invoiced and would there be any file format or invoice format changes.

One respondent (BGT) makes a number of detailed points to the draft legal text

One respondent (SSE) re-iterates its concerns about the pricing methodology and has provided their original response to Transco's Pricing Consultation Paper, PC56.

Transco's Response

Transco does not envisage any significant changes for computer systems of Transco or Users, other than the introduction of a new charge type to represent the proposed optional LDZ tariff. A small number of sites would need to be transferred from Transco's Sites and Meters Database and on to the Unique Sites Billing System. All sites charged on the optional LDZ tariff would be invoiced on the Unique Sites Billing System similar to all existing sites.

Transco welcomes the detailed points provided on the draft legal text and has made changes to the draft legal text where appropriate.

In respect of the comments raised in connection with the pricing methodology, they are not the subject of this modification proposal and in the main refer to the optional NTS commodity tariff.

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

This Modification is not linked to Transco's compliance with any 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 Licence

This modification proposal gives effect to the Optional LDZ Tariff, which resulted from Of gem's formal decision (dated 17 July 2000) not to veto Transco's proposal to change its charging methodology which was the subject of Pricing Consultation Paper PC56.

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

If implemented, a number of changes to the manual SPA and billing processes will be required.

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

Subject to an Ofgem decision on the modification proposal, and the completion of all necessary site offers and confirmations by mid-October 2000, Transco proposes to implement the modification such that the new tariff will become effective from I November 2000.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends the implementation of the modification proposal.

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

Section B
Paragraph 1.8.5
Renumber existing sub paragraph (ii) to (iii) and sub paragraph (iii) to (iv)

Insert new paragraph 1.8.5(ii) to read:

"(ii) for the purposes of paragraph 4.6.2, the Applicable Daily Rate and Applicable Annual Rate may be the rate determined in accordance with the Transportation Statement by reference to the distance between the LDZ Specified Exit Point and the Notional NTS Connection Point and the capacity of the LDZ Specified Exit Point determined in accordance with Paragraph 4.6.9, (the “LDZ Optional Capacity Rate”); "

Paragraph 4.6
Insert new paragraph 4.6.9 to read:

"4.6.9 Pursuant to the prevailing Transportation Statement, a User may elect that, for the purpose of paragraph 4.6.2, the Applicable Daily Rate of the LDZ Capacity Charge in respect of an LDZ Specified Exit Point shall be the LDZ Optional Capacity Rate, determined in accordance with the following provisions.

(i) For the purpose of Code:

(a) a “Notional NTS Connection Point” is the point on the NTS which is derived by Transco in accordance with paragraph 4.6.10. and in the case of a Supply Point, identified by Transco in its Supply Point Offer in accordance with Section G2.4.2(l) or, in the case of a CSEP, the point identified by Transco in accordance with paragraph (vi);]

(b) an “LDZ Specified Exit Point” is, in the case of a Supply Point, the System Exit Point notified to Transco as the Proposed Supply Point in the User’s Supply Point Nomination in accordance with paragraph G2.3.2(j) or, in the case of a CSEP, the LDZ System Exit Point identified as the CSEP in the Conventional Notice in accordance with paragraph (vi);

(ii) The LDZ Capacity Charge payable (for any Day) by a Registered User or CSEP User will be determined (for each Specified Exit Point) as the Registered LDZ Capacity multiplied by the LDZ Optional Capacity Rate applicable for the capacity (calculated in accordance with paragraph (iii)) and the distance (calculated in accordance with paragraph (iv));

and shall be invoiced in accordance with Section S.

(iii) For the purposes of this paragraph 4.6.9 the capacity of the LDZ Specified Exit Point shall be the Supply Point Capacity, determined in accordance with Section G5.4.1 except;

(a) for an LDZ Firm Supply Point the capacity shall be the sum of the DM Supply Point Capacity and the NDM Supply Point Capacity that the User is registered as holding from time to time in accordance with paragraphs 4.2 and 4.3 respectively;

(b) for an LDZ Interruptible Supply Point the capacity shall be the Supply Point Capacity determined in accordance with paragraph 4.6.5;

(c) for a Shared Supply Point the capacity shall be determined in accordance with Section G1.7.15;

(d) for an LDZ CSEP the capacity shall be determined in accordance with paragraph 4.5.2.

(iv) The distance (to the nearest 0.1 km) from the Notional NTS Connection Point to the curtilage of the LDZ Specified Exit Point or the offtake from the System at the LDZ Specified Exit Point (whichever is the lesser) shall be calculated on a straight line basis using eight figure grid references.

Transco shall determine an eight figure grid reference for each Notional NTS Connection Point and each LDZ Specified Exit Point (which may be revised in accordance with paragraph (vi) or Section G2.4.12).

(v) An application for the LDZ Optional Capacity Rate for a Supply Point shall be made in accordance with the provisions of Section G2.3.2(j) and, for a CSEP, shall be made in accordance with the provisions of paragraph (vi).

(vi) A CSEP User, or a proposing CSEP User, may apply for the LDZ Optional Capacity Rate in the following manner:-

(a) by Conventional Notice to Transco stating the CSEP User, the LDZ Specified Exit Point ; and

(b) Transco shall identify the Notional NTS Connection Point and offer the LDZ Optional Capacity Rate and shall provide the distance between the LDZ Specified Exit Point and the Notional NTS Connection Point, the capacity of the CSEP determined in accordance with paragraph 4.5.2 and the eight figure grid references used; and

(c) where the CSEP User disputes the distance specified by Transco under paragraph (b), the CSEP user may resubmit an application in accordance with paragraph (a) stating an alternative eight figure grid reference for the LDZ Specified Exit Point with supporting evidence of calculation;

(d) the CSEP User shall confirm acceptance of the offer made in accordance with paragraph (b) with effect from the first day of a month not earlier than 15 days after the submission of the confirmation (or such lesser period as Transco may specify) and not later than six months from the date of the offer.

(vii)Where the User elects to pay the LDZ Optional Capacity Rate the LDZ Commodity Charge shall not be payable."

Insert new paragraph 4.6.10 to read:

4.6.10 The Notional NTS Connection Point shall be derived by Transco as :

(i) in the case of a Supply Point, the point on the NTS at which the NTS is nearest to either :

a) the curtilage of the LDZ Specified Exit Point, or
b) the offtake from the System at the LDZ Specified Exit Point

whichever gives the lesser distance

(ii) in the case of a CSEP the point on the NTS at which the NTS is nearest to the LDZ Specified Exit Point

<u>Paragraph 4.7</u>

Amend paragraph 4.7.6(i) to read:

“(i) 2 times the Applicable Annual Rate <u>(including where determined in accordance with paragraph 1.8.5(ii))</u> of the LDZ Capacity Charge . . .”

<u>Paragraph 4.8</u>

Amend paragraph 4.8.3 to read:

“4.8.3 The LDZ CSEP Overrun Charge . . .
Applicable Annual Rate <u>(including where determined in accordance with paragraph 1.8.5(ii))</u> of the LDZ Capacity Charge.”

SECTION G
Paragraph 2
Amend paragraph 2.3.2 to read:
"2.3.2 A Supply Point Nomination shall specify:

(i) ……..; or

(j) where a User wishes to apply for the LDZ Optional Capacity Rate, the LDZ Specified Exit Point."

Amend paragraph 2.4.2 to read:

"2.4.2 .....

(k) Where a User has made a Supply Point Nomination. . . . . Rate; or

(l) where a User has made a Supply Point Nomination in accordance with paragraph 2.3.2(j) the Notional NTS Connection Point, the distance between the Notional NTS Connection Point and the Proposed Supply Point, the eight figure grid references, the capacity of the Proposed Supply Point and the LDZ Optional Capacity Rate."

Amend paragraph 2.4.12 to read:
"2.4.12 Where the User . . . . paragraph 2.4.2(k) or paragraph 2.4.2(l), the User may resubmit a Supply Point Nomination for the Proposed Supply Point stating alternative eight figure grid references for the Proposed Supply Point and the National NTS Connection Point as appropriate with supporting evidence of calculation."

Amend paragraph 2.5.1 to read:

"2.5.1

(iii) in respect of a Supply Point... in accordance with paragraph 2.4.2(k) or paragraph 2.4.2(l), ...this paragraph 2.5.1."

Amend paragraph 2.5.8 to read:

"2.5.8 (c) where there is an application for the NTS Optional Commodity Rate or the LDZ Optional Capacity Rate.....;"

Signed for and on behalf of Transco,

Signature:

Tim Davis
Manager, Network Code

Date:

27/10/00

Director General of Gas and Electricity Markets 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 **0428,** version **4.0** dated **27/10/2000)** be made as a modification to the Network Code.

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

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **4.0**.

Signature:

Process Manager -Network Code

Transco

Annex

1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement 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 paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Director does not so approve the Agreement then Clause 3 shall apply.

2. If the Director does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Director does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTP A, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Director would not exercise his right to give notice pursuant to paragraph 1 (5)(d)(ii) QL 2(2)(12)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Director pursuant to Clause 1 (i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.