Draft Modification Report
Optional LDZ Tariff
Modification Reference Number 0428

Version 2.0

This Draft 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

This modification proposal contemplates the incorporation of the optional LDZ tariff into the Network Code. Transco's proposal to introduce the optional LDZ tariff was the subject of Pricing Consultation Paper PC56. Ofgem 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) Determination of the optional LDZ rate for an LDZ supply point

The optional LDZ rate will be defined by the formula 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 = $902 \times [(SOQ)^{-0.834}] \times D + 772 \times (SOQ)^{-0.717}$]

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

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 +/- 0.05km. 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 "off line" 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 Ofgem 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 by approximately £1.5m in comparison with the application of the standard LDZ charges.

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.

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)

Representations are now sought

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 Ofgem'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 ModificationProposal

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 1 November 2000.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends the implementation of the modifiation proposal.

17. Text

Section B

1.8.5 Renumber existing Sub paragraphs (ii) and (iii) to (iii) and (iv)

Insert 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";

(iii) Delete "Section G3.5.5" and substitute "paragraph 3.5.5".

Insert new paragraph:

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 "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);]

a "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 a 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.

Paragraph 4.7

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 . . ."

Paragraph 4.8

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."

4.6.10 The Notional NTS Connection Point shall be derived by Transco

(i) in the case of a Supply Point, the point on the NTS which is the lesser distance of (a) and (b) where;

(a) is the distance between the curtilage of the LDZ Specified Exit Point and the point on the NTS which is nearest to such curtilage, and

(b) is the distance between the offtake from the System at the LDZ Specified Exit Point and the point on the NTS which is nearest to such offtake point.

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

SECTION G

Amend:

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:

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.

2.4.12 Amend to read "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 as appropriate with supporting evidence.

Amend:

2.5.1
(i) in accordance with paragraph 2.4.2(k) or paragraph 2.4.2(l), ...this paragraph 2.5.1.

Amend:

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

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: