

Modification Report
Provision of Data in respect of downstream networks by the iGT directly connected to
the Distribution Network
Modification Reference Number 0183
Version 2.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

The Connected System Exit Point Network Exit Agreement (CSEP NExA) governs the relationship between the Distribution Network Operator (DNO) and the independent Gas Transporter (iGT) directly connected to the Distribution Network (DN). Annex A of this agreement requires the iGT to provide certain information to the DNO which enables the issue of transportation and energy charges to Users at the CSEP pursuant to the Large Transporters' Uniform Network Code (UNC).

The ongoing development of networks by numerous licensed Gas Transporters has led to a number of occurrences where an iGT has permitted connection of a pipework network downstream of its own network which is directly connected to the DN. These are commonly termed 'nested arrangements'. Indeed there are also examples of further iGTs network connections downstream of these nested networks termed 'multiple' or 'deep' nests.

A recent review suggested there are approximately 265 such nested arrangements and of these, approximately 135 are 'within group', i.e. different licensed transporters within the same corporate group are connected to each other.

At the point the original CSEP NExA terms were agreed, it was not envisaged that any 'nested' arrangements would occur and thus Annex A of the CSEP NExA does not explicitly detail the data provision obligations in respect of these nested arrangements.

The proposer understands that presently, contractual terms between iGTs in respect of nested arrangements do not exist. This is a source of great concern to DNOs.

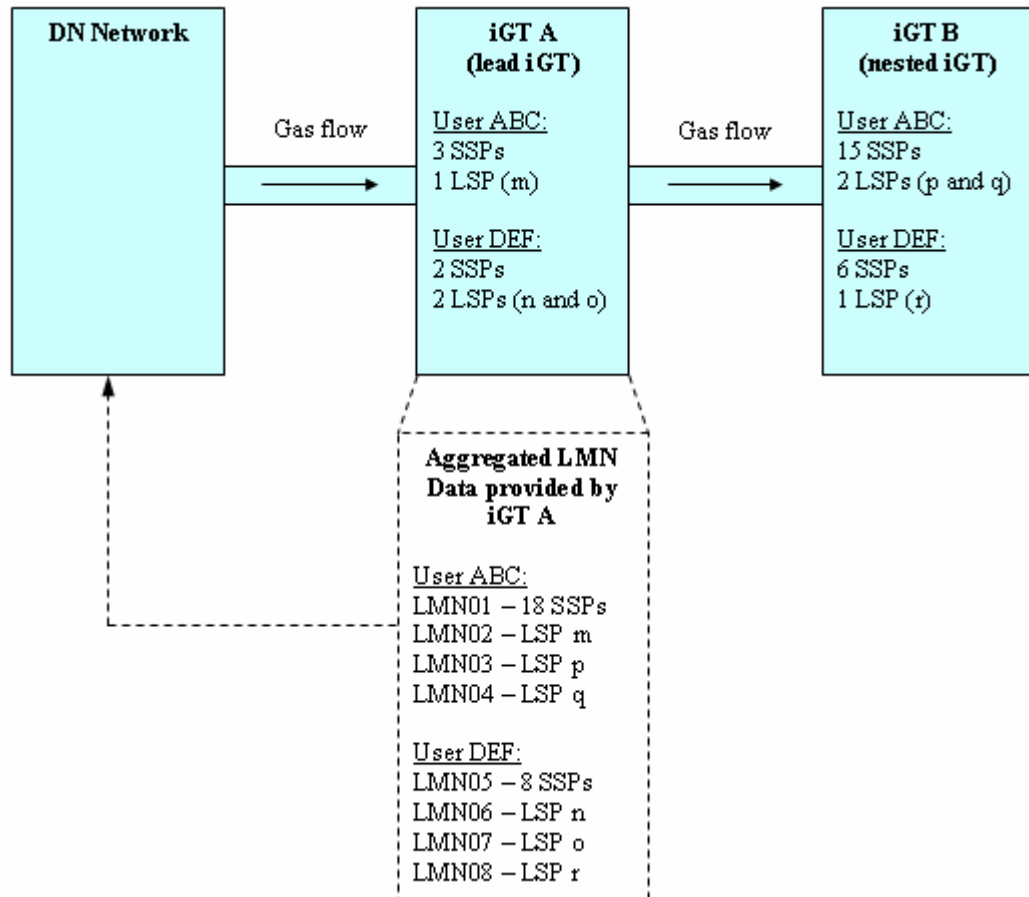
It is therefore proposed that Annex A of the CSEP NExA be modified to reflect that the iGT ('lead iGT') directly connected to the DN is responsible for the provision of all relevant data in respect of any nested arrangements connected to its network or connected to any network downstream of that network. Within the scope of Annex A this would include:

- A minimum of weekly updates to include appropriate:
 - Requests for additional Logical Meter Numbers (LMNs),
 - Requests for LMN AQ updates, and
 - Requests for LMN closuresto reflect Supply Point Administration activity at nested arrangements,
- Annual requests for LMN AQ updates as a consequence of the Annual AQ Review,

- Provision of periodic reconciliation volumes for the purposes of reconciliation at relevant Larger Supply Points

In practical terms, the requirement would be for the demand for all Smaller Supply Points (SSPs) registered to a User at all the relevant nested arrangements and the network directly connected to the DN to be represented by one LMN. The existing requirement for one LMN per Larger Supply Point (LSP) would apply and therefore any additional LMNs (representing LSPs at nested arrangements) would be requested by the lead iGT.

An example is detailed below:



Though clearly beyond the remit of this proposal, the proposer would anticipate that the lead iGT's offtake terms (as agreed with the nesting iGT) would include the requirement for the provision of timely and accurate information to the lead iGT to enable it to comply with the terms of this Modification if implemented.

Notwithstanding this proposal, the proposer believes the lead iGT requires downstream demand information for the following purposes (but not limited to):

- To ensure that the downstream demand will not exceed the maximum offtake rate as agreed with the DNO at the connection to the DN.
- To ensure that gas transported to consumers on its own network at a 'suitable pressure' to "ensure the safe operation of any gas appliance which that consumer could reasonable be expected to operate" pursuant to the

Gas Safety (Management) Regulations 1996 (GS(M)R)

- To ensure compliance with, or assurance regarding, any other relevant inter-iGT terms (commercial and physical) governing the offtake

The proposer acknowledges that the proposed information flow would require consideration of the timing implications in light of the requirement for lead iGTs to procure information from a nesting iGT in order to complete its 'consolidated' data submission. The proposer would envisage that the lead iGT in each case would tailor its terms of offtake in each instance to address such requirements.

The proposer does not believe that the alternative for nesting iGTs to submit data direct to the relevant DNO is appropriate given that:

- This would require contractual arrangements between the DNO and the nesting iGT in absence of any physical connection between the two,
- This would potentially remove the lead iGT from the information flow which, for the above stated reasons is likely to be inappropriate, and
- The DNO would not be aware of any physical limitations / restrictions the lead iGT has imposed on the offtake to the nesting iGT and therefore the DNO would be in no position to validate the data received.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates

The absence of any existing data provision obligations in respect of nested arrangements means that DNOs have no assurance that gas offtaken from nested arrangements is within the maximum values it stipulated upon connection. Additionally, such amounts will not be accounted for in respect of terms of network planning activities. Implementation would provide a level of assurance and enable the licensee to have a more complete picture of the demand on its pipeline system and therefore increase the efficiency with which the aforementioned system is operated.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of

- (i) the combined pipe-line system, and/ or***
- (ii) the pipe-line system of one or more other relevant gas transporters;***

As described above, a more accurate view of system demand would facilitate the ability of all transporters to operate all pipeline systems in a co-ordinated, efficient and economic manner.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to facilitate the achievement of this

objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers;***
- (ii) between relevant suppliers; and/or***
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

As any unaccounted for demand is currently reconciled via the Reconciliation by Difference (RbD) mechanism, implementation would ensure that costs are more accurately allocated and therefore facilitate the securing of effective competition between relevant shippers.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to facilitate the achievement of this objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

The prompt, accurate and timely transfer of data between lead iGTs and DNOs is essential to ensure compliance with the provisions contained within Annex A of the LDZ CSEP NExA. Furthermore, the passing of data directly impacts on the efficient operation of the UNC by DNOs, particularly concerning the levying by DNOs of accurate transportation invoices to Users.

Implementation of this Modification Proposal would increase accuracy and can therefore be expected to facilitate Standard Special Condition A11.1 (f) of the GT Licence: so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

3 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

A more accurate view of system demand would facilitate the ability of all transporters to operate all pipeline systems in a co-ordinated, efficient and economic manner.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

Implementation would enable the Transporter to have a more complete picture of the demand on its pipeline system and therefore increase the efficiency with which the aforementioned system is operated.

b) Development and capital cost and operating cost implications:

No such implications have been identified.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No such cost recovery is proposed.

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

No such consequence has been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence has been identified.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No further development of the UK Link System (or any related systems) would be required in the event of implementation.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

Development and capital cost and operating cost implications

No such costs have been identified.

Consequence for the level of contractual risk of Users

Implementation of this Modification Proposal would increase the accuracy and timeliness of relevant UNC activities including the levying of transportation invoices. This certainty would reduce risk to Users.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers

and, any Non Code Party

Based on the assumption that lead iGT processes are not currently tailored to address these requirements, further processes may need to be developed by iGTs to account for quantities offtaken at nested arrangements for subsequent transmission to the DNO.

Envoy and ES Pipelines raised concerns about the additional iGT activity and associated development costs were the Proposal to be implemented.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Where existing arrangements between iGTs do not facilitate the requirements of this proposal, it will be necessary for additional contractual terms to be in place between the relevant iGTs. It may be appropriate for such obligations to be located within the iGT UNC to which all iGTs are signatories.

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

Advantages

- Ensures the DNO has a complete picture of the demands on its Network.
- Ensures the lead iGT has a complete picture of the demands on its Network.

Disadvantages

- The various data hand offs may lead to a small delay in the passing of information to the DNO.
- Increased iGT activity and costs.

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

Representations were received from the following:

Organisation	Position
British Gas	Qualified Support
BOC Limited	Supports
EDF Energy	Qualified Support
Envoy	Does not support
ES Pipelines	Does not support
National Grid Distribution	Supports
Scotia Gas Networks	Supports
Scottish Power	Qualified Support
Scottish and Southern Energy	Qualified Support
Wales & West Utilities	Supports

Of the ten responses received four supported implementation and four offered qualified support.

British Gas and EDF Energy raised concerns with regards to the limitation of the Proposal and the obligations set against the lead iGT.

Scottish Power remained concerned at the lack of appropriate incentives and obligations.

Scottish and Southern Energy were concerned about the accountability of missing data.

Envoy and ES Pipelines raised concerns about the additional iGT activity and developmental costs. Both believed that there was an alternative, and better, solution.

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

Implementation is not required for such.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

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

No programme for works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

From a DNO perspective there would be no system development implications in the event of implementation and therefore DNOs are able to facilitate implementation immediately upon the appropriate direction being issued by the Authority. However, given that iGTs are likely to require a lead time to establish data 'hand offs' and relevant contractual terms it is anticipated that a period of 6 months would be required to facilitate this.

National Grid Distribution have suggested an implementation date of 1 September 2008.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code

Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 21 February 2008, of the 10 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

For and on behalf of the Relevant Gas Transporters:

Tim Davis

Chief Executive, Joint Office of Gas Transporters