

Modification Report
Amendment to the Small Supply Point AQ Process.
Modification Reference Number 0454
Version 2.0

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

1. The Modification Proposal

The three areas of proposed amendment to the Small Supply Point Annual Quantity (SSP AQ) process are;

1. Amendments to SSP Provisional AQ values to be limited to those, which alter by more than 1,000 Kwh (the tolerance).
2. No tolerance to apply in instances where meter points are re-classified as Large Supply Points (LSP) following any amendment to the Provisional AQ.
3. Instances of amendments received from Users (outside of the prescribed tolerance) to be rejected by Transco.

2. Transco's Opinion

This Modification Proposal was raised by Transco with the objective of providing increased confidence and certainty to Users with SSP portfolios, based on Users aggregate AQ values.

The experience of some Users following the 2000 SSP AQ process, was that the potential for high volume, low value SSP AQ amendments disadvantaged their position (via the consequential RbD charging methodology, based predominately on AQs).

Transco believes that the suggested tolerance criteria suitably protects all Users, whilst allowing legitimate amendments beyond the tolerance level.

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

Transco believes that this Modification Proposal provides greater certainty for Users with SSP portfolios (through a limitation of the potential for high volume, low value AQ amendments), and as such better facilitates its PGT Licence relevant objective of securing effective competition between relevant shippers and between relevant suppliers.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

No implications have been identified.

b) development and capital cost and operating cost implications:

Limited development costs have been identified which will ensure the tolerance criteria can be applied.

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

The costs of implementing this proposal would be treated as ordinary business costs.

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

None identified

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco's contractual risk is unaltered by this Modification Proposal

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

Transco's computer systems would require limited enhancement. Transco is not aware of any impacts on User systems.

7. The implications of implementing the Modification Proposal for Users

This proposal would result in a reduced number of SSP AQ amendments and introduce increased certainty for Users in terms of their relevant User aggregate LDZ AQ positions, following SSP amendment phase.

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

None identified

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

None identified

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

Advantages

Limits the opportunity for high volume, low value AQ amendments to have any detrimental effect on other Users with SSP portfolios.

Provides greater certainty for Users in terms of anticipating their respective AQ positions.

No restriction in terms of supply points transferring across SSP and Large Supply Point (LSP) market in amendment phase

Disadvantages

Limited system enhancement required to identify tolerance criteria when determining SSP amendments.

Precludes legitimate SSP AQ amendments less than 1,000 KwH.

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

Seven representations were received from Users (Seeboard Energy, Aquila Energy Limited, Scottish Power, British Gas Trading (BGT), Scottish and Southern (SSE), Yorkshire Energy Limited and Innogy).

Six User representations broadly supported the proposal. One User (Aquila Energy) representation commented "...not believe this modification proposal should be implemented before discussions take place between the shipping and supplier industry as to what the required tolerance level should be".

BGT stated that "...implementation would increase the certainty for shippers in terms of their supply point AQs and LDZ AQ positions, following SSP amendment phase". Similarly, SSE supported the Modification proposal, agreeing with the defined tolerance of 1,000kWh.

Yorkshire Energy supported the proposal in principle, "...as it reduces the opportunities for large numbers of AQ amendments having a detrimental effect on other Users. However, we feel it would be useful for there to be a contingency for special cases, possibly using a manual process whereby appeals could be considered on an individual basis". Further support from Innogy stated that "...it adequately balances protection for Users by the use of tolerance with allowing legitimate amendments". Seeboard wrote "...in support of the proposals to modify the Network Code to reflect a tolerance of + or - 1000kWh for future Domestic AQ reviews".

Scottish Power offered qualified support for the proposal, "...the proposed value of +/- 1,000kWh does not offer the protection that could be afforded by a larger tolerance, ...believe this is the first step to a more robust process..Scottish Power therefore supports this modification".

Other views centring on the general nature of Domestic AQ processes were also reflected in some representations. Scottish Power stated that "We feel strongly that the modification for the Review in 2001 is a necessary first step to stopping the opportunities for gaming, which were present and utilised in the Review of 2000".

Scottish Power added that "selective read submission and threshold crossing are still areas where Shippers have the potential to manipulate the process and ultimately influence cost apportionment...we look to Ofgem to continue to monitor AQ movements and vigorously pursue Shippers found to be using the process to unduly influence other Shipper's costs".

Transco concurs with the majority of the written representations received. The establishment of a + and - 1,000kWh tolerance, allows for a planned reduction on volume

AQ amendments which will not impact the process geared at reflecting AQ amendments above this tolerance level.

The other ancillary issues identified by Scottish Power are also viewed as issues requiring attention. Transco will ensure they are given sufficient attention at subsequent AQ sub group meetings.

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

Implementation of this proposal is not required to facilitate any such change.

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

Not applicable

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

Not applicable

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

Transco proposes that this Modification Proposal should be implemented as soon as possible, to allow Users sufficient time (before the AQ amendment window) for any required computer system enhancements.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation as soon as possible.

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 Gas & Electricity Markets Authority in accordance with this report.

Transco recommends implementation of the proposal as soon as possible.

DELETE paragraph G1.6.4 and replace with:-

“1.6.4 Amendment of Provisional Annual Quantity

- (a) Following the notification of the Provisional Annual Quantity the Registered User may in the case of:-

(i) a Smaller Supply Point where it considers that the Provisional Annual Quantity should be greater or lesser than the Provisional Annual Quantity notified by Transco by not less than 1000 kWh; or

(ii) in respect of any Larger Supply Point; not later than 13th August in the preceding Gas Year notify Transco that it considers that the Provisional Annual Quantity does not satisfy the requirement in paragraph 1.6.6. ("User Provisional Annual Quantity")

- (b) Transco will be entitled to reject without consideration, notice or liability any notification by a User which does not comply with the requirement in paragraph 1.6.4 (a) (i).

- (c) The limitations upon notification contained in paragraph 1.6.4 (a) (i) shall not apply where the User Provisional Annual Quantity will result in a Smaller Supply Point being re-classified as a Larger Supply Point.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Gas and Electricity Markets Authority 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 **0454**, version **2.0** dated **10/04/2001**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **2.0**.

Signature:

Process Manager - Network Code
Transco

Date:

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 Gas and Electricity Markets Authority ("the Authority") 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 Authority 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 Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority 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 Authority 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 RTPA, 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 Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(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 Authority 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.