Draft Modification Report
Modification Reference Number 0105

Establishment of Calorific Value (CV) Zones to Facilitate the Implementation of Flow Weighted Average (FWA) Methodology

This modification report is made pursuant to Rule 8.12 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Procedures Followed

TransCo agreed with Ofgas (and has followed) the following procedures for this Proposal:

Mod Proposal Submitted	21/11/96
Mod Panel referred to development group	10/01/97
Development work group report to Mod Panel	20/02/97

2. The Modification Proposal;

Under the existing lowest source methodology, calorimeter measurements were used to determine the lowest source CV entering an LDZ and this value was used in the calculation of energy consumed at system exit points. This methodology resulted in substantial amounts of unbilled energy on the system.

The Gas (Calculation of Thermal Energy) Regulations 1996 required the introduction of a Flow Weighted Average (FWA) methodology for the calculation of CV . Under this FWA methodology, the volume of gas flowed between each change in the measured CV is assessed and translated into energy. The total energy and gas volume for the day is then totalled and an average CV for the day is calculated. This flow weighted average CV is then used to calculate the energy of the gas delivered to or offtaken from the system at system exit points. In order to facilitate this, Transcos proposal was to sub divide Local Distribution Zones (LDZs), where these receive gas of widely varying CV, into CV zones, in order to allow a more accurate calculation of energy at system exit points, and reduce the amount of unbilled energy on the system.

3.Transcos opinion;

Transco is of the opinion that this proposal was appropriate as it allowed for a more accurate calculation of energy usage and would further reduce unbilled therms. Enabling Transco to better reflect the energy of transported gas and associated revenue.

However following representations from the development group and Ofgas, Transco will not continue to pursue the creation of additional CV charging zones.

Transco is concerned that system development costs, and more importantly valuable resources, have been utilised in order to support Modification 0105 in accordance with agreements reached with the Calorific Value Advisory Group, Ofgas and the DTI.

It was necessary to start this work prior to the full formal notification via the official channels in order to meet the proposed implementation date of 1st April 1997, as accepted by the CV Advisory Group.

Shippers at the Modification 0105 Development Group implied that the system changes required to increase the number of CV charging zones would only be implemented if supported by a regulatory requirement, despite earlier industry sign-on to this proposal. Ofgas have since stated that there is no regulatory requirement to change to an increased number of CV charging zones.

Transco note that this decision is likely to decrease Transco allowed formula revenues and increase its operating costs. This raises issues that will need to be addressed during the formulation of Transco's new license conditions.

4. Extent to which the modification would better facilitate the relevant objectives:

Amendments to the Gas (Calculation of Thermal Energy) Regulations 1995, introduced a change from using lowest source CV to a Flow weighted Average CV with a one Megajoule cap, effective from 11th April 1997.

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

a) implications for the operation of System and any BG Storage Facility:

This proposal would not impact on system operation or storage facilities.

b) development and capital cost and operating cost implications

This proposal would incur significant development costs to both Transco and shippers. Shipper estimates of system costs range from £ 30k - over £ 300k and Transco System costs have been estimated at £ 500k. Transco have already incurred costs of £ 180 k resulting from the move to FWA methodology.

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:

It has been proposed by Transco and shippers that Transco should recover the development costs and associated operating costs through the pricing formula.

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

Discussions are continuing with Ofgas to enable recovery of costs through the pricing formula.

6. 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:

There is no envisaged consequence.

7. The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers;

Transco and Shipper systems would have needed to be enhanced to accommodate additional CV charging zones, over and above the current LDZ based zones.

8. The implications of implementing the modification for Relevant Shippers,

Shippers would have received a more accurate calculation of energy usage at system exit points.

9. The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party;

Continuance of a regime which retains unbilled energy may have implications for the acceptance of gas into the system which could result in further unbilled energy.

10. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal;

There are no consequences as a result of the implementation of this modification proposal.

11. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal;

Advantages -

This proposal allowed for compliance with both current legislation and the network code and would have provided a more accurate calculation of thermal energy, and associated bills of End Users, within LDZs which regularly receive gas with varying CVs.

Disadvantages -

The implementation of this proposal would have resulted in system costs for both shippers and Transco.

12. Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report;

Representations on this subject have been generally in support of Transco reducing the level of unbilled energy through the use of flow weighted average CV at sub LDZ level. However the majority of shippers could not support the approach of forming additional CV zones as the system costs would not reflect the level of benefit received. Shippers were in favour of a retention of CV charging at LDZ level with Transco recovering the costs of unbilled energy through formula adjustments.

Ofgas confirmed to the development work group members that the move from the current 13 CV (LDZ) charging zones to the proposed 19 is not a regulatory requirement . They also confirmed that in view of the level of system development costs which would be incurred by shippers, relative to the additional revenue gained by Transco by moving from 13 to 19 zones, they were not minded to accept that the change should go ahead.

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

This proposal was not required to facilitate compliance with safety or other legislation

14. 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 proposal is not required to comply with the above clause.

15. Programme of works required as a consequence of the implementation of the Modification Proposal;

This modification proposal has not received support from the community and therefore no programme of works is necessary.

16. Proposed implementation timetable;

Not applicable.

17. Recommendation for the implementation of the modification;

In view of the Ofgas comments regarding the regulatory impact of the change and the costs attributable to shippers Transco will no longer pursue the implementation of this proposal.

18. Restrictive Trade Practices Act

If implemented this proposal would constitute an amendment to the Network Code. Accordingly the proposal would have been subject to the Suspense Clause set out in the attached Annex.

19. Transco Proposal

As a consequence of the Gas (MeasurememOfgas and industry comments regarding this modification, Transco now propose that Flow Weighted Average CV calculation be implemented on the basis of 13 LDZ based CV charging zones, and that further consideration be given to mechanisms by which Transco can recover the cost of unbilled gas attributable to CV calculation at LDZ level.

Signed for and on behalf of British Gas Transco.

pp. Signature: Roger J. Brown
Date: 15th April '97
Name: ROGER BROWN
Position: NETWORK CODE MANAGER.

Secretary Modification Panel
British Gas Transco

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.