



15 June 1998

Direct Dial: 0171-932-1656

Our Ref : bg803_13

Your Ref :

Ms Sharon McLaughlin
Transco
31 Homer Road
Solihull
West Midlands
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Dear Ms McLaughlin

MODIFICATION 208 - AMENDMENTS TO THE AQ UPDATE PROCESS FOR 1998

I refer to the above modification proposal, which has been accepted by Ofgas. We are content for the proposed amendments to be made to Transco's network code to facilitate a more successful review of AQs in 1998 than was experienced in 1997. This letter records a number of principles that should have a bearing on the work Transco must put in hand to implement these proposals.

1. Liabilities

In the final modification report, Transco has suggested that the associated incentives can be agreed at a later date. The related standards of service are now the subject of a separate modification (Modification 235), which reflects the discussions between Transco and shippers, most recently at a meeting on 6 March. We expect that, in due course, the modification will be implemented in its current form.

2. Tolerances

The original Modification proposal included tolerances, which defined a minimum size of adjustment that could be appealed by shippers. Many shippers had suggested that the tolerances should be consistent throughout the 1998 process and should apply similarly to Transco and shippers. We have discussed with Transco that the internal costs to shippers of raising AQ appeals may already be sufficient disincentive to them raising immaterial AQ appeals. Also, it has been suggested to Ofgas that some shippers may have a material bias in their aggregate portfolio that is accounted for solely by large numbers of small inaccuracies. Therefore, Transco has agreed to remove tolerances from these proposals.

3. Sites Below The 2,500 Therms Threshold

Several shippers are concerned that sites that are recorded by Transco as consuming below 2,500 therms a year will not be addressed by the current proposals.

The concerns expressed by shippers include Condition 35 sites. We have some concerns about consenting to a modification that has the effect that shippers are not now able, and are deemed never to have had the opportunity to apply, to have Condition 35 sites treated as if they had an AQ greater than 2,500 therms. Ofgas has already said (see Ofgas' letter of 15 April 1998) that we consider Transco to have given undertakings about the treatment of these sites. That is, to allow these sites to be treated as industrial and commercial sites. The proposals in this modification apparently contradict that undertaking. However, we have concluded that Modification 226 ('Equitable allocation of RBD savings and compensation for small I&C sites') already provides a vehicle by which Transco can deliver these undertakings or provide compensation where it is unable to do so.

4. 1998 Domestic AQ Review

Transco has recently implied (though it has not yet formally been discussed with Ofgas) that it may not provide a review of domestic AQs in 1998, as currently required under its network code. We have several concerns about domestic AQs and the possibility that Transco may propose not reviewing them. We have written to you separately on this issue.

5. Monitoring the 1998 Process

Shippers have suggested that mechanisms (such as the comparison of aggregate AQs) should be developed to ensure that the problems experienced in 1997 are avoided. Transco has suggested only that this would need to be discussed and agreed by the industry. Ofgas agrees that discussion with the industry may assist Transco in developing reliable data management processes. However, Transco is responsible for undertaking the 1998 review and Ofgas will be looking to Transco to take the initiative in putting in place such mechanisms as are required to provide an efficient and robust review of AQs in 1998.

6. Beyond 1998

In their responses to this modification, several shippers have expressed preferences about how AQs should be updated beyond 1998. In the final report, Transco has suggested that these are issues that are being taken forward separately.

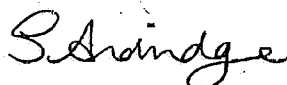
We accept that this modification was limited to 1998 and that the process beyond 1998 will need to be the subject of a separate review. There would be much merit in developing alternative arrangements. For example, shippers could provide AQs. Another alternative would be to use the actual physical capacity of a site (as is the case in the electricity industry). However, before such a move is undertaken, Transco would need to make a convincing case for moving away from the assumption, as included in its present price control, that it is responsible for the accurate provision of AQs.

Under the current arrangements, we have some sympathy with the view that shippers should be able appeal inaccurate AQs at any time during the year. Therefore, we would expect that the appeal window will be extended into 1999, unless there is new evidence that it is inappropriate.

Finally, we note that the report itself is not consistent with the legal drafting. Given the importance of this modification, we have not asked Transco to make all the corrections that would normally be required of it. On issues such as the removal of tolerances, we hope this letter will help avoid any confusion.

Please could you circulate this letter to shippers with the final modification report.

Yours sincerely

A handwritten signature in cursive script, appearing to read "S. Aldridge".

Sean Aldridge
Head of Network Operations



Urgent Modification Proposal 0208 Decision

Amendments to the AQ Update Process for 1998

18 June 1998

This modification was accepted by Ofgas on 11 June and became part of the Network Code on 16 June.

Present Position

Under its Network Code, Transco has an obligation to undertake an annual review of the annual quantity (AQ) of gas consumed at each supply point. This review, known as the AQ review process, enables Transco to collect data that it uses to estimate the demand for gas, for each supply point, for the forthcoming gas year. Review Group 0121 was convened to develop an AQ review process for 1997. This resulted in the implementation of Modification 0136, which introduced arrangements for the 1997 AQ review process. The changes that were made to the AQ review process for 1997 were largely transitional, applying only to the 1997/98 gas year. Review Group 0121 reconvened to consider how the AQ review process could be developed for 1998.

Proposal

The Review Group suggested that the industry's requirements for 1998, in respect of industrial & commercial (I&C) AQs, may not be the same as its longer term requirements. Therefore, these changes apply only for sites in the I&C market and only for 1998.

To avoid some of the problems experienced in 1997, this modification allows shippers more time to review AQs and to provide substantiated alternatives, prior to new AQs taking effect. Also, where any recalculation may decrease the accuracy of an AQ, special provisions are proposed. For example, this modification implements measures to avoid recalculating AQs that have recently been successfully appealed or where there is concern over the quality or quantity of historical consumption data.

Finally, this modification defers the current Network Code obligation on Transco to review domestic AQs in September 1998 for a three month period, to allow for proposals to be fully developed.

Possible Impact on Customers

This modification may increase the quality and accuracy of AQs for industrial and commercial customers for the 1998/99 gas year. It will also delay the AQ review for sites owned by domestic customers by three months to allow for further discussion and the development of proposals.

Further Information

The Transco contact is Claire Robinson on (0121) 623 2021
The Ofgas contact is Sean Aldridge on (0171) 932 1656