

Final Modification Report

Modification Reference Number 0255 - Revision of Booking Rules & Overrun Regime for DM NTS Exit Capacity

This Modification Report is made pursuant to Rule 7.4 (a) of the Modification Rules and follows the format required under Rule 8.12.4.

1. The Modification Proposal:

This modification proposal is to revise the Network Code provisions for booking DM NTS Exit Capacity and the associated overrun incentive regime.

- 1) Transco will aggregate the SOQ's of a shippers Supply Points within an exit zone on the 8th of each month and an equivalent amount of DM NTS Exit Capacity will be booked, by Transco, on behalf of that shipper effective from the 15th of the month.
- 2) Under existing rules shippers may be liable for NTS Exit overrun charges in respect of quantities offtaken in relation to LDZ Supply Points. Under this proposal it would be inappropriate as shippers would have no control over the booked amount. NTS Exit overruns would therefore not apply in relation to NTS to LDZ offtakes.
- 3) Supply Point ratchets will remain as an incentive to accurately assess maximum daily offtake requirements at a Supply Point level. The ratchet effect on Supply Point Capacity will lead to an increase in booked Exit Capacity the following month.
- 4) In relation to NTS Supply Points, Transco will apply the same principle of booking NTS Capacity equivalent to the shippers nominated SOQ. However, as there is no Supply Point ratchet, overrun provision will remain in place to incentivise accurate nomination of maximum offtake requirements. For circumstances where an approved increase in SOQ takes place within month, or if a site changes shipper an overrun will only apply if the offtaken quantity exceeded the subsequently revised SOQ or if the overrun occurred prior to the approval date of the SOQ.
- 5) The arrangement for NTS CSEPs will remain unchanged. However, this process may be revised in the light of future developments of the capacity booking regime at NTS CSEPs.

2. Transco's opinion:

Modification 133 stopped the mandatory conversion of all sites above this threshold to DM status. As a result the number of firm DM Supply Points is relatively low (approximately 185) and in view of the associated costs it is unlikely to increase significantly. Shippers typically only have a few DM Supply Points in each exit zone and the benefits of usage diversity are limited. This limited benefit is greatly outweighed by the administrative burden of booking and the "flying wedge" (where all capacity booking in an exit zone are given the same end date as the most recent booking) has given rise to a significant mismatch of NTS Exit Capacity and Supply

Point ownership. In this area the current regime arguably falls foul of Transco's requirement for cost reflectivity.

Transco believes that this modification provides appropriate rules within the Network Code for a shipper's holding of NTS Exit Capacity to more accurately reflect their Supply Point ownership. Further, in the case of an NTS Supply Point subject to sharing arrangements shippers will be able to increase or decrease their holding of NTS Exit Capacity (subject to no aggregate reduction during a twelve month period) to reflect their prevailing contractual relationship with the consumer.

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

The modification will better facilitate competition at NTS Shared Supply Meter Points by allowing shippers capacity booking to reflect their prevailing contractual relationship with the consumer. This proposal will also ensure that transportation charges associated with DM NTS Exit Capacity are more cost reflective in relation to shippers Supply Point portfolio.

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

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

There are no implications.

b) development and capital cost and operating cost implications:

Some manual systems work is required to facilitate these changes. Operating costs are offset by the removal of the need to calculate overrun charges in respect of LDZ offtakes.

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 provision of this service is of benefit to all shippers. Therefore, the recovery of costs should be through the prevailing pricing formula, as part of Transco's regulated income.

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

The reduction of the potential mismatch of a shippers DM Exit Capacity and Supply Point holding will increase cost reflectivity and reduce the risk of cross subsidy in this area.

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

There will be no consequences.

6. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

As this process would be managed by a manual system there would be no development costs. During discussion at the Capacity Workstream it was implied that there would be relatively little impact on shippers systems and it was understood that any such impact would be outweighed by administrative simplicity.

7. **The implications of implementing the Modification Proposal for Relevant Shippers:**

Shippers holdings of DM Exit Capacity will more accurately reflect Supply Point holdings within an LDZ.

8. **The implications of implementing the Modification Proposal for terminal operator, suppliers, producers and, any Non-Network Code Party:**

The consumer may benefit as shippers will be able to enter into and leave NTS Shared Supply Points without retaining a contractual involvement for Exit Capacity. This is providing that there is no aggregate reduction in capacity holding over a twelve month period.

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

There are no consequences.

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

Advantages

This proposal ensures that a shippers holding of DM NTS Exit Capacity more accurately matches a shippers Supply Point commitment. It also ensure that shippers are not faced with overrun risk from administrative error incurred through a process which is acknowledged as having little benefit in the light of Modification 133.

Shipper would still however be incentivised to accurately nominate SOQ's at LDZ Supply Points through the ratchet mechanism and on the NTS by the retention of the overrun mechanism. In respect of NTS Shared Supply Meter Points this proposal

better facilitates competition in supply by allowing shippers to transfer capacity entitlement without the need for trading.

Transco acknowledges that as this is a manual monthly process, there will still be some mismatch of a shippers capacity holding and Supply Point ownership. However, Transco firmly believes that the proposed solution is the appropriate way forward as a more refined solution would entail unjustifiable costs.

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

Four representations have been received in respect of this proposal from Agas, BGT, Eastern and Shell. All respondents supported the principle of the modification. Additional comments were made as follows:

Agas

Agas suggest that the approach of taking a snapshot of aggregate SOQs, and Transco making a booking on a shippers behalf is a sensible and pragmatic short term solution. They also comment that the removal of the flying wedge is essential for exit capacity to more accurately reflect Supply Point ownership. Agas comment that the proposal does not make specific reference to the end dating of existing bookings. They also express concern that the snapshot may be too early in the month to capture changes in Supply Point ownership and that a mechanism for dealing with appealed SOQs is not provided.

BGT

British Gas trading comment that the drafting provided appears to suggest that exit capacity booking is still required and that it is different from the drafting discussed at the June workstream. A drafting point is also raised in relation to section B 3.2A.1. BGT also comment on the time at which the snapshot is taken and suggest that this should take place on the 3rd of each month. It is also suggested that Transco should require no more than 3 days to complete the booking procedure after this snapshot.

Eastern

Eastern support the principle of the proposal but suggest that it should not be implemented in its current form. Like Agas, Eastern comment that the proposal does not make specific reference to the end dating of existing capacity bookings. Eastern also suggest that the snapshot should be taken on the 5th and that Transco should not require more than two working days to make capacity bookings. In addition, Eastern question the use of sub paragraph 3.2A within the legal drafting and suggest that this should be reviewed to remove this style of paragraph numbering. Further drafting points are made in respect of the definition of a " capacity period", the retention of the drafting relating to the flying wedge and the description of which day is used for the purposes of overrun calculation. Two drafting errors were identified.

Shell

Shell support the proposal provided that the snapshot is taken no earlier than the eighth of the month. They also suggest that Transco should make capacity bookings within two days of this snapshot.

Transco Response

Transco are in many respects neutral to the date upon which the snapshot is taken. Shippers have indicated that the majority of transfers take place at the beginning of a month and that to maximise the within month accuracy, the snapshot should be taken on a date later than the first. To this effect the drafting has been amended to the 8th of the month. With regard to the time taken by Transco to make a booking Transco do not support the reduction of this period to two days. This modification can only be accommodated by a manual processes, and as such there is no automation in the booking process. Whilst this may ordinarily be achievable on a shorter timescale than 7 days no additional resource has been made available for this operation and Transco can only commit to seven days in view of the number of other operations which are undertaken by Commercial Operations staff.

With regard to the end dating of existing Capacity booking, Transco do not feel it necessary to make specific reference to the end dating of booking at implementation. The nature of the proposal is that every month bookings are end dated and re booked in accordance with prevailing SOQs. This is equally applicable at the time of implementation. The drafting provided in the transition document (B3.2.9) is in Transco's view sufficiently clear that any bookings made with a registration prior to 8th October 1998, other than those for an NTS CSEP will end at 06:00 on the 8th. This has however been amended to the 15th in the light of representations received.

The drafting provided retains the existing provisions for exit capacity booking at NTS CSEPs. This was agreed at the July workstream meeting as the rules for capacity bookings at CSEPs are yet to be resolved. This is the reason why the provisions of the "Flying wedge" remain and why there is a section 3.2 and 3.2A. Transco are of the view that, whilst in some ways cumbersome, this was preferable to renumbering large parts of Section B. It is anticipated that this can be reviewed when CSEP capacity booking rules are established. Some minor amendments have been made to clarify that B 3.2 refers to NTS CSEPs.

The reference in B 3.6.6 to the "... first such overrun days.." is necessary in the case of a CSEP or Shared Supply Meter Point. In such cases, where there are two identical days of maximum offtake it is possible that the allocation of gas will be different on such days. Some method is therefore required to decide the manner by which the overrun charge is apportioned. The use of the first occurrence is viewed as the simplest solution.

The drafting relating to capacity period has been revised in relation to an NTS CSEP and the drafting errors raised by BGT and Eastern have been amended.

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

Not applicable.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of 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:

This modification will require a manual process and no programme of work is required.

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

This proposal would be implemented on the 7th October 1998. The existing Network Code Rule in relation to DM Exit Capacity and overruns will remain in place until this time.

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommend that this modification is implemented and seeks a direction from the Director General accordingly.

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 Director General in accordance with this report.

19. Text provided pursuant to Rule 7.3

Legal Text attached

Mod 255 Legal Text

Section B

3.1.4 Delete

3.2 Registration: NTS CSEPS

3.2.1 A User may at any time apply for NTS Exit Capacity ("DM NTS Exit Capacity") (subject to paragraph 3.4) an NTS Connected System Exit Point, subject to and in accordance with this paragraph 3.2.

3.2.2 An application for DM CSEP Exit Capacity at an NTS Connected System Exit Point:

(a) shall specify

(i) the identity of the User;

(ii) the Exit Zone;

(iii) the amount of DM NTS Exit Capacity applied for; and

(iv) the proposed date of registration (in accordance with paragraph 3.2.3);

(b) shall be submitted not earlier than 6 months nor later (other than in accordance with paragraph 3.2.12) than 4 Days before the proposed date of registration.

3.2.3 Subject to paragraph 5.4.2(b), a User may only be registered as holding DM NTS Exit Capacity in respect of an NTS Connected System Exit Point with effect from an Eligible Capacity Registration Date.

3.2.4 Transco may reject an application for DM NTS Exit Capacity in respect of an NTS Connected System Exit Point:

- (i) where the requirements of paragraph 3.2.2 are not complied with,
- (ii) in accordance with Section V3, or
- (iii) in accordance with Section J5.10.2.

3.2.5 A User may withdraw an application for NTS Exit Capacity at an NTS Connected System Exit Point by so notifying Transco by no later than 17.00 hours on the Day preceding the proposed date of registration (provided that were the User proposes a System Capacity Transfer for which the Transferred System Capacity comprises all or part of the NTS Exit Capacity in any application the User shall not be permitted to withdraw such application after notifying Transco of such proposed System Capacity Transfer).

3.2.6 The application will be approved unless withdrawn under paragraph 3.2.5 or rejected in accordance with paragraph 3.2.4 within 3 Days after the application was made.

3.2.7 The User (if its application is approved) will be registered as holding DM NTS Exit Capacity at the relevant NTS Connected System Exit Point with effect from the date of registration for the period (the "capacity period") established in accordance with paragraph 3.2.9.

3.2.8 A User may apply at any time (in accordance with paragraph 3.2.1) to increase its Registered DM NTS Exit Capacity at a NTS Connected System Exit Point in which case (if its application is approved) paragraph 3.2.7 shall apply in respect of the increased or new DM NTS Exit Capacity.

3.2.9 The capacity period, in respect of an NTS Connected System Exit Point, shall be :

- (i) 12 months after the date of the registration; or
- (ii) where the User has increased its Registered DM NTS Exit Capacity at the NTS Connected System Exit Point (in accordance with paragraph 3.2.8(i)) 12 months after the date of the latest such registration.

3.2.10 During the capacity period a User's Registered DM NTS Exit Capacity at an NTS Connected System Exit Point shall not be reduced, and (subject to Section V4.3) the registration shall not be termination.

3.2.11 On expiry of the capacity period the User shall cease to be registered as holding DM NTS Exit Capacity at the relevant NTS Connected System Exit Point, but without prejudice to any new registration pursuant to a further application under paragraph 3.2.1.

Add new Clause 3.2A

3.2A Registration : DM Supply Points and non NTS CSEPs

3.2A.1 A User will at any time be deemed to apply for DM NTS Exit Capacity ("DM NTS Exit Capacity") for each Exit Zone in its capacity as :

- (i) the Registered User of any Firm DM LDZ Supply Point Components;
- (ii) the CSEP User of any LDZ Connected System Exit Points; or
- (iii) the Registered User of a Firm NTS Supply Point Component;

subject to and in accordance with this paragraph 3.2A.

3.2A.2 :-

The DM NTS Exit Capacity for each Exit Zone shall be calculated as:-

- (i) the sum of the Supply Point Capacities for all Supply Points in paragraph 3.2A.1. (i) determined in accordance with Section G2.3.2(e); and
- (ii) the sum of the Firm DM LDZ Capacities for all CSEPS in paragraph 3.2A.1. (ii), determined in accordance with paragraph H2.2 and the relevant CSEP Network Exit Agreement; or
- (iii) the Supply Point Capacity of the Supply Point Component in paragraph 3.2A.1(iii), determined in accordance with Section G5.

3.2A.3 A User shall only be registered as holding DM NTS Exit Capacity, in accordance with this paragraph 3.2A in respect of such capacity held by the User as at the 8th of the calendar month, with effect from the 15th of each calendar month and for the period of one calendar month from such date (the "capacity period").

3.2A.4 During the capacity period, a User's Registered DM NTS Exit Capacity shall not be reduced, and (subject to Section V4.3) the registration shall not be terminated.

3.3 Registration: NDM Supply Points

unchanged

3.4 Registration: CSEPsDelete and replace with:-

The CSEP Network Exit Agreement in relation to an NTS Connected System Exit Point may set out rules for the allocation of NTS Exit Capacity subject to and in accordance with Section J5.10. Where the CSEP Network Exit Agreement does not so provide, the provisions of paragraph 3.2 shall apply.

3.5 NTS Exit Charges

unchanged

3.6 Overrun Charges

Delete 3.6.1(i) and (ii) and replace with:-

3.6.1 Subject to paragraphs 3.6.6 and 3.6.7, if for any reason in any calendar month (an **"overrun month"**) the quantity of gas offtaken by a User from the System at a Firm NTS Supply Point Component or a NTS Connected System Exit Point, on any Day or Days (each and **"overrun day"**) exceeds the User's Available DM NTS Exit Capacity at the relevant NTS Exit Point, the User shall pay a charge (**"NTS Exit Overrun Charge"**) in respect of NTS Exit Capacity at that NTS Exit Point in that month.

3.6.2 For the purposes of this paragraph 3.6, in respect of a User at a NTS Exit Point:

- (a) the **"overrun quantity"** in respect of an overrun day is the amount by which in the case of a Firm NTS Supply Point or relevant NTS Connected System Exit Point, the User's UDQO in respect of that point exceeds the User's Available DM NTS Exit Capacity at that NTS Exit Point on that Day;
- (b) the **"chargeable overrun quantity"** in respect of an overrun month is the largest overrun quantity on any overrun day in that month.

3.6.6

(ii) the chargeable overrun quantity shall be determined by reference to the largest aggregate overrun excess of any overrun day in an overrun month (or if there is more than one such overrun day, the first such overrun day).

3.6.7 Where a User has made an application to increase the NTS Exit Capacity at a Firm NTS Supply Point Component which is subsequently accepted by Transco or a Proposing User has made a Supply Point Confirmation for an increase in NTS Exit Capacity, on any Day or Days where the gas offtaken by the User from the System at the Firm NTS Supply Point Component exceeds the User's Available DM NTS Exit Capacity at such Supply Point, but does not exceed the User's Available DM Exit Capacity following the effective date of such application or confirmation, then no NTS Overrun Charge shall be payable in respect of such Day or Days.

5.1 Basis of transfer

5.1.1 A User (the "**Transferor User**") may transfer all or part of:

(i); and/or

(ii) its Available NTS Exit Capacity in respect of a NTS CSEP booked in accordance with the relevant CSEP Ancillary Agreement or in accordance with paragraph 3.2 to another User (the "**Transferee User** "), subject to and in accordance with this paragraph 5.

Section G 3.2.4 delete

Section J

J5.8.1

(ix); and

(x) will for a NTS CSEP specify the method by which NTS Exit Capacity shall be allocated and registered to the CSEP User or shall reference the CSEP Ancillary Agreement which specifies the method by which NTS Exit Capacity shall be booked by the CSEP User.

J5.10. Change all references in paragraph 5.10 from relevant Connected System Exit Points to "relevant NTS Connected System Exit Points."

5.10.1 Unchanged

5.10.2 Without prejudice to any provisions for allocation of NTS Exit Capacity contained in the CSEP Network Exit Agreement or any CSEP Ancillary Agreement, or the further provisions of this paragraph 5.10, Transco shall be entitled to reject any application for (or for an increase in) NTS Exit Capacity at a relevant Connected System Exit Point where the requirement in paragraph 5.10.1 would be infringed if it accepted such application.

5.10.3 Transco may agree, pursuant to the CSEP Network Exit Agreement or CSEP Ancillary Agreement, and subject to any conditions contained in such Agreement, that with effect from the expiry of the capacity period (as defined in such Agreement) in respect of any prevailing registration in the name of any User of NTS Exit Capacity at an NTS Connected System Exit Point, the User shall be entitled to apply for and may be registered (in priority to any other User) as holding NTS Exit Capacity in an amount subject to such prevailing registration.

TRANSITION DOCUMENT PART II

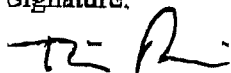
Delete B 3.2

B3.2.9

B3.6.3

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 2/10/98

Director General of Gas Supply 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 0255, version 002 dated 01/10/98 be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:



Shaun Day

Date:

5/10/98

The Network Code is hereby modified, with effect from _____, in accordance with the proposal as set out in this Modification Report, version 002.

Signature:

Process Manager - Network Code
Transco

Date:

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.