Modification Report
Technical Amendments Required By Introduction Of Disaggregated Metering Charges
Modification Reference Number 0427

Version 2.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

Proposal issued for consultation:	Wednesday, 20 September 2000
Close out for representations:	Tuesday, 26 September 2000
Final Report to Ofgem:	Wednesday, 27 September 2000
Ofgem decision expected:	Friday, 29 September 2000

1. The Modification Proposal

Consistent with the introduction of new metering and daily meter reading charges as set out in the Transporation Statement, it is proposed that the Network Code be modified to recognise the new charges.

2. Transco's Opinion

Transco is in support of this proposal

It is necessary to modify the Network Code to be consistent with the introduction of new metering and revised customer charges, as set out in Transco's Transportation Statement, from 1 October 2000. The Transporation Statement reflects charges proposed by Pricing Consultation Paper 54 and is consistent with Transco's programme for better facilitating competition in metering services.

Transco presently includes costs associated with its metering services in the Customer Charge element of its transportation charges. A rebate is presently available where the meter is not provided, installed and maintained by Transco. To further facilitate competition in meter ownership and meter work Transco consulted with the industry (Pricing Consultation 54) on proposals to replace the present structure of charges and rebates with disaggregated charges in respect of meters, dataloggers and correctors owned by Transco.

Following representations, Ofgem notified Transco in July 2000 of its decision not to veto the revised proposals.

The proposals form part of Transco's programme for the development of competition in metering and meter reading services. Facilitated by implementation of this proposal, Transco believes that introduction of the new charges can be expected to bring greater transparency in pricing and encourage the development of further competition in metering services.

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

This modification proposal is consistent with Transco's and Ofgem's programme for the introduction of competition in metering and meter reading services. Transco believes that disaggregated metering charges will deliver several benefits including increased transparency and shipper choice thereby better facilitating improved competition in metering between relevant shippers.

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

a) implications for the operation of the System:

None identified.

b) development and capital cost and operating cost implications:

No such cost implications have been identified as related to this proposal. Implementation of PC54 proposals require amendment to Transco's UK-Link system and for which costs will be incurred.

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 incurred are provided for within the existing price control.

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

This proposal allows for appropriate application of transportation charges as proposed within PC54 and mitigates against the risk of volatility in prices as a result of inappropriate revenue recovery.

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 would decrease as a consequence of implementation of this modification proposal.

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

Functionality to Transco's UK-Link system would be required to support PC54 proposals. It is also likely that shippers would need to amend their systems accordingly.

7. The implications of implementing the Modification Proposal for Users

Users will receive invoices appropriate to the services they receive.

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 in respect of the Network Code modification proposal.

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

This proposal will provide clarity within the Network Code and ensure that Users are correctly invoiced for the services they receive.

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

The advantage that this modification proposal provides is that it facilitates smooth implementation of the proposals consulted upon in PC54

No disadvantages with the modification proposal have been identified.

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

Representations have been received from 6 shippers. Of these, 4 expressed support for the modification proposal, 2 did not.

Aquilla Energy Ltd and BGT expressed support without further comment.

One respondent requested that their comments remain confidential.

Yorkshire Electricity (YE) expressed their "reluctant" support citing a number of concerns. YE recognised the importance of the introduction of disaggregated metering charges but raised concerns in respect of the availability and accuracy of the customer metering data required to validate Transco's transportation invoices. YE stated that the metering information provided by Transco relating to their portfolio provides insufficient details resulting in an inability to undertake extensive validation on the data provided. Further, YE expressed their heightened fears over data quality by Transco using AQ's as a method of determining the likely meter installations at premises and proposing to bill shippers on this data.

Total Gas Marketing Ltd (TGM) and Shell Gas Direct Ltd (SGD) did not express support for the proposal.

TGM recommended that introduction of PC54 proposals be postponed until at least April 2001 in order to allow timely resolution of problems associated with the current

implementation timetable. TGM expressed support for the underlying principle objective to better facilitate competition in the provision of metering services via more cost reflective metering charges. TGM also expressed its appreciation of the nature of the modification proposal in respect of implementation of the Ofgem approved PC54 proposals. However, TGM identified data quality, accuracy of charges and validation of invoices as issues that remain of ongoing concern to the shipping community. TGM cites these concerns as the reason for the Modification Panel requesting of modification proposal 422 to be referred to the Workstream rather than going to consultation. TGM expressed its opinion that there has been no further progress toward resolution of these issues and that implementation of PC54 proposals will only serve to introduce uncertainty and inaccuracies in derivation of Transco's charges resulting in unacceptable commercial risk to shippers.

Shell Gas Direct noted consideration by the Modification Panel of modification proposal 422 and its decision not to approve immediate consultation citing a requirement for greater clarification of the consequences of introducing the charges and appropriate information requirements. Drawing similarity between 422 and 427 SGD retains concern that the information required by shippers is not available for charges to be introduced on 1 October 2000 and 1 April 2001.

SGD identify a number of issues which it considers as requiring further industry consultation prior to introduction of PC54 proposals. Amongst others SGD identify a number of issues associated with data quality, availability and provision, namely; the availability of information to shippers on meter installations at different premises, the process for update and communication; clarification about shipper protection for costs associated with replacement of expensive meters installed unnecessarily or inefficiently; the effects of siteworks costs and Transco's potential dominant position in the provision of some aspects of metering services; potential reassessment of liability payments and caps as a consequence of changes to metering prices; data quality issues and the timetable for providing accurate information and process for correction; likely effects on invoicing and invoice queries, particularly consideration of sub-deducts; and, concerns as to the shipper facing change requests.

SGD consider that modification proposal 427 does not address these issues and that its implementation may result in a number of difficulties. Particularly the inappropriate targetting of costs to shippers and customers and likely frustration of competition between suppliers.

Transco recognises the concerns raised by some respondents in regard to data availability and accuracy.

Transco is of the view that issues of data availability and accuracy are pertinent to the charging structure which has already been the subject of consultation within PC54. However, Transco recognises the concerns raised by YE, TGM and SGD and has held 2 industry workshops on 14 August 2000 and 5 September 2000 to discuss these issues and agree a programme of action for the provision of meter portfolio data and the updating of data subsequently provided.

This exercise is now complete in respect of the provision of information and Transco will continue to work with the industry to optimise data quality in this and other areas.

YE raised concern as to the use of AQs as a method of determining the likely meter installations at premises. Transco has used a number of parameters to determine the most appropriate charging band where explicit meter information is unavailable, one of which is AQ. Transco believes this is an appropriate approach; however, a mechanism for amending data has been developed to enable shippers to provide updated information.

In respect of concerns raised by respondents to the issue of invoice validation, Transco provided information relating to the query process to shippers at the industry workshop on 5 September 2000 and will be providing greater detail to shippers at the Invoicing workstream meeting scheduled to take place on 28 September 2000. This, in conjunction with the portfolio information Transco has provided, should enable shippers to verify the continued maintenance of invoice accuracy.

TGM and SGD expressed views relating to the modification process. Transco orginally put forward modification proposal 422 based on its understanding that the implementation of Special Condition 23 of its Public Gas Transporters Licence would define metering charges separately from transportation charges. However, Ofgem indicated at the industry workshop held on 5 September 2000 that this understanding was open to question. This, and the fact that Special Condition 23 has not yet been implemented, led Transco to withdraw modification proposal 422.

This revised proposal is a 'technical' modification which merely seeks to enable the collection of revenues through meter charges as apposed to customer charges. Urgent status was required to ensure that the proposal could be implemented by 1 October 2000, the date from which metering charges will apply.

SGD expressed concerns regarding meters which might have been installed unnecessarily or inefficiently in respect of their size. Transco recognises that in some circumstances the site requirement may equally be met by a smaller capacity meter than that already installed. However, Transco believes that in the vast majority of cases installation of such meters was efficient taking into account the circumstances at the time of installation and remain suitable for accurate gas measurement.

Notwithstanding the implementation of disaggregated metering charges, when a meter is no longer capable of accurate measurement Transco will replace the meter with one of an appropriate size. Prior to implementation of pricing disaggregation this service was (and will remain the case for I&C meters until 1 April 2001) financed through the customer charge. Post pricing disaggregation this service will be provided on the basis of the charges consulted upon in PC54.

It is possible that in a small minority of cases a larger meter than that required or foreseen was installed. Transco is undertaking a survey to establish the number and circumstances of

such cases. The findings of the survey will be subject to industry discussion as will any appropriate action.

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 such compliance.

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

Implementation of this proposal is required to facilitate charges consulted upon in PC54.

14. Programme of works required as a consequence of implementing the ModificationProposal

No direct program of works is required as a consequence of implementation of this proposal. Changes to Transco UK-Link system are necessary to support introduction of PC54 proposals.

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

Disaggregated charges are planned to be introduced on 1 October 2000. This proposal is required to be implemented at the same time.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this modification proposal be implemented.

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

DRAFT LEGAL TEXT

SECTION M

Paragraph 1.2.4

Amend paragraph 1.2.4 to read "1.2.4 For the purposes .....repair, exchange or replacement.."

Paragraph 2.2

Delete paragraph 2.2.2 (a) and substitute:

"(a) subject to paragraphs (d) and (e) and to paragraphs 2.2.4 and 2.5.1, Transco will be responsible for securing (on behalf of the Registered User) the installation (in accordance with paragraph 2.1.2), maintenance, repair, exchange and replacement of the Supply Meter Installation or relevant part of it provided by Transco within a reasonable time after a request to do so and subject to payment of appropriate charges in accordance with the Transportation Statement;"

Paragraph 2.2.2b

Amend paragraph 2.2.2(b) to read;
"(b) Customer Charge where payable...."

SECTION M

Paragraph 4.1.6

Delete "component of the Customer Charge" and replace with "charges".

Paragraph 4.2

Add new subparagraph 4.2.3(iv) to read:

"(iv) The User will pay appropriate charges in accordance with the Transportation Statement in respect of such Daily Meter Readings obtained by Transco."

SECTION S

ANNEX S-1 : INVOICE TYPES AND INVOICE ITEMS

3. LDZ Capacity Invoice - Delete and replace with:

"An LDZ Capacity Invoice" is an Invoice Document in respect of the following Invoice Items:

(a) LDZ Capacity Charges;

(b) Customer Charges - Capacity Variable Component; and

(c) Customer Charges - Fixed Component."

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

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 **0427**, version **2.0** dated **29/09/2000**) be made as a modification to the Network Code.

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

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 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 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 Director does not so approve the Agreement then Clause 3 shall apply.

2. If the Director 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 Director 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 Director 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 Director 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.