

Draft Modification Report
Transco Proposal for Revision of Network Code Standards of Service
Modification Reference Number 0565
Version 2.0

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

1. The Modification Proposal

This Proposal contains a complete standards of service package structured as follows:-

Absolute Limitation of Liabilities (Cap)

Transco proposes to link a % absolute Cap to its profits on ordinary activities and that, as is currently the case (and was recommended by RG0072), the Absolute Cap be sub-divided to avoid possible perverse incentives in certain areas.

Discussions in the Standards of Service Development Work Group have indicated that each of the proposed standards are of equal priority, in view of this, in sub dividing this cap, Transco proposes to set individual caps for each standard, the sum of which equates to 20 % greater than the absolute cap. This will ensure an incentive is retained across the entire regime. However, should liability payments reach the absolute cap in any one period, sub cap payments (and any components within each sub cap) will be pro rated such that the absolute cap is not breached.

Similarly, should any sub cap limit be breached in any one period, the component payments within the sub cap will be pro rated, where applicable, such that a sub-cap be applied to each of the customer types, “Domestic” and “Industrial & Commercial”. This would ensure that a major failure in one area would not preclude liabilities being paid to the other customer area. It is proposed that the existing consumption threshold of 73,200kWh should be used and for this reason (to be consistent with the Network Code) the terms ‘Smaller’ and ‘Larger’ Supply Points will be used.

Proportion for incentives related to Larger Supply Points 50% of respective sub cap

Proportion for incentives related to Smaller Supply Points 50% of respective sub cap

High Level Principles of Operation

Following discussion in the Standards of Service Development Work Group Transco also proposes the following principles of operation as part of the Standards of Service regime

Shadow Log

- Operation of any shadow arrangement must be cost effective and simple to operate for both Transco and Users.

- The shadow log should act to moderate User behaviour and inhibit the generation of liability payments from Transco through inappropriate action (or inaction).
- “Polluter pays”, i.e. the User(s) responsible for problems will be excluded from receipt of any payments in relation to the respective standard.
- Scope of shadow log arrangements should in the first instance be limited to those activities that impact on the standard of service process to which they relate.
- The Standards of Service Development Work Group should determine detail of the rules of operation for individual standards.
- Where there are interdependencies between standards payments will only be made against the standard incurring the higher liability, all payments in respect of dependant standards will be suspended for the same occurrence.

Query Management

- The query definition developed by the Standards of Service Development Work Group, subsequently ratified by the Standards of Service Sub Committee be utilised for GT queries and that the Standards of Service Development Work Group should continue to develop a definition for Metering queries that remain under the jurisdiction of Transco until Metering Separation.
- Query Management standards for Metering related queries are transitional and will be removed from the Network Code upon the implementation of Metering Separation.
- Data Quality – existing Previously Submitted Query (PSQ) Rules to apply as determined by the Standards of Service Development Work Group.
- Existing Standards of Service for the Management of Shipper Operational and Invoice Queries (Bosworth Agreement) to act as baseline for business rules.

Reporting

- All reporting will be output based.

Invoicing and Payment

- Existing Network Code rules under section V13.4 will apply.

Table of proposed Standards and Incentives

Item	Sub-cap	Proposed Standard	Failure	Incentive Payment	Shadow Log
Existing Standards Retained					
Provision of DM Meter Reads	Larger Supply Point	97%	by 11.00 hrs D+1 Each Subsequent Day >D+7	£20 per Supply Point £20 £30	N/A
Production of CV data to shippers by 11.00 hrs and 16.00 hrs	N/A	All Failures	by 16.00 hrs D+1 Where Transco becomes aware of a change to published CV Data it will endeavour to advise the User within five business day	£50 per User, per event £100 per User per event	N/A
Invalid Offer (LDZ)	Larger Supply Point	All Failures	Existing Network Code Rules	£100 per confirmation	N/A
Nominations Referred	Larger Supply Point	97%	>12 days >17days	£30 £50 per nomination	✓ Access problem for site visits
Suppressed reconciliation DM (SRV's) (NB this standard excludes those suppressed items covered by USRV arrangements)	Smaller Supply Point	98%	>1m >2m (invoice month following resolution of suppression)	£40 £60	N/A
Suppressed reconciliation NDM (SRV's) (NB excludes those suppressed items covered by USRV arrangements)	Smaller Supply Point	98%	>1m >2m (invoice month following resolution of suppression)	£20 £30	✓ Must Reads
Adjustments to GRE Invoices	Larger Supply Point and Smaller Supply Point		As per rules agreed for Modification 0385		N/A
Gas not made available (I&C) (DM) (NDM) (Interruptible)	Larger Supply Point	All Failures	Existing Network Code Rules apply	Greater of 10 x Annual Capacity for Firm or 5 x Annual Capacity for Interruptible or	N/A

Network Code Development

				DM £250 NDM £50 per Supply Point	
File format governance for UKlink Class 2 and 3 changes as Existing Network Code Rules. Consult on proposed change, Give notice of change of not less than 3 months, Failure to notify of non implementation of change within one business day.	N/A	All Failures All Failures All Failures	No consultation No notice Not implemented Existing Network Code Rules apply	£500 per User, per failure	N/A
Proposed New Standards					
Non Availability of UK Link System (as definition per UK Link manual) excluding planned outages.	N/A	99% of service availability as defined in UK Link manual	system unavailable for a period not less than 24 hours	£1,000 per User affected	✓ Where failure can be attributed to inappropriate actions of a User, affected Users should have the right to recover incentive payments from such user.
Non Recovery of UK Link System (definition per UK Link manual)	N/A	All Failures recovery with in 5hrs as defined in UK Link manual	repeated failure within the business day following recovery	£50 per user affected 1st repeated failure to increase by 100% for each subsequent failure within the business day per user affected e.g. £50, £100, £200, £400, £800	✓ Where failure can be attributed to inappropriate actions of a User, affected Users should have the right to recover incentive payments from such user.
Query Resolution GT					
I&C Queries resolved	Larger Supply Point				✓ In order to protect users from the potential for gaming where a User submits invalid queries exceeding 10% of the total volume of queries submitted by that user in any month they shall be excluded from receiving any benefit from this standard. (Volume limits to be recorded based upon a Larger and Smaller supply points)
(Duplicates excluded from incentive payment)		35%	4 days	£5	£5
		80%	10 days	£10	£20
		95%	20 days	£50	£100

Network Code Development

		All Failures	>40 days	£100 pcm	£200
Domestic Queries resolved	Smaller Supply Point				✓ as I & C queries above
(Duplicates excluded from incen payment)		35%	4 days	£2.5	£2.5
		80%	10 days	£5	£10
		95%	20 days	£10	£20
		All Failures	>40 days	£25 pcm	£50
Query Resolution Metering (Transitional Standard to be removed from Network Code at Metering separation date) <u>NB</u> Upon separation it is proposed that the standard will be suspended for a short period to permit systems "cut over"	Larger Supply Point				✓ In order to protect users from the potential for gaming where a User submits invalid queries exceeding 10% of the total volume of queries submitted by that user in any month they shall be excluded from receiving any benefit from this standard. (Volume limits to be recorded based upon a Larger and Smaller supply points)
I&C Queries resolved					
		35%	4 days	£5	£5
		80%	10 days	£10	£20
		95%	20days	£50	£100
		All Failures	>40 days	£100 pcm	£200 pcm
Domestic Queries resolved	Smaller Supply Point				✓ as I & C queries above
		35%	4 days	£2.5	£2.5
		80%	10 days	£5	£10
		95%	20 days	£10	£20
		All Failures	>40 days	£25 pcm	£50 pcm

NB All proposed standards are subject to development of agreed business rules

2. Transco's Opinion

Transco is of the opinion that the final standards of service package (as shown in the table below), negotiated by the Development Work Group, represents a fair balance between User desires to incentive Transco to consistently perform to a high standard while meeting Transco's requirement to have some scope to avoid liability payments by exceeding the performance levels. Obviously this rationale does not apply where Transco is liable for all failures, in which case the payments are more compensatory in nature. Nevertheless, Transco remains of the opinion that the terms of the package as a whole are fair.

Item	% Split for Larger and Smaller Supply Points?	Final Proposed Standard	Failure	Incentive Payment	Shadow Log
Existing Standards Retained					
Provision of DM Meter Reads	100% Larger	97.5%	by 11.00 hrs D+1 >D+4 PPL measured over a calendar month.	£30 per meter point per day £70 per meter point per day (exc. from PPL)	N/A
Production of CV data to shippers by 11.00 hrs and 16.00 hrs	N/A	All Failures	by 16.00 hrs D+1 Where Transco becomes aware of a change to published CV Data it will endeavour to advise within 5 business days	£50 per User, per event £250 per User, per event	N/A
Invalid Offer (LDZ)	100% Larger	All Failures	Existing Network Code Rules	£50 per confirmation	N/A
Nominations Referred	80% Larger 20% Smaller	97% 100%	>12 days >17 days	£30 £50 per nomination	Yes, where access is a problem for site visits
Suppressed reconciliation DM (SRV's) (NB this standard excludes those suppressed items covered by USRV)	100% Smaller	98%	>1m >2m (invoice month following resolution of suppression)	£40 £60	N/A
Suppressed reconciliation NDM (SRV's) (NB excludes those suppressed items covered by USRV arrangements)	100% Smaller	98%	>1m >2m (invoice month following resolution of suppression)	£20 £30	Yes, must Reads

Network Code Development

Item	% Split for Larger and Smaller Supply Points?	Final Proposed Standard	Failure	Incentive Payment	Shadow Log
Adjustment to GRE charges	N/A	As per existing rules	As per Network Code rules as agreed in Modification 0385 (part of Transition document until Feb02)	As per existing rules	N/A
Site Visits (excludes GSOS for Metering Visits)	50% Larger 50% Smaller	All Failures	Failure to keep a site visit appointment	£20	Yes, where appointment agreed and User fails to attend or Transco is unable to obtain access
Gas not made available (I&C) (DM) (NDM) (Interruptible)	50% Larger 50% Smaller	All Failures	Existing Network Code Rules apply	Greater of 10 x Annual Capacity for Firm or 5 x Annual Capacity for Interruptible or DM £250 NDM £50 per Supply Point	N/A
File format governance for UKlink Class 2 and 3 changes as Existing Network Code Rules. Consult on proposed change, Give notice of change not less than 3 months Failure to notify of non implementation of change within 1 business day	N/A	All Failures All Failures All failures	No consultation No notice Not implemented Existing Network Rules apply	£500 per User, per failure £500 per User, per failure £1,000 per User, per failure	N/A
Proposed New Standards					
Non Availability of UK Link System (as definition per UK Link manual) excluding planned outages.	N/A	99% of service availability as defined in UK Link manual	System unavailable for a period not less than 24 hours	£1,000 per User affected	Yes, where failure can be attributed to inappropriate actions of a User, any liability payments will be suspended.

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Item	% Split for Larger and Smaller Supply Points?	Final Proposed Standard	Failure	Incentive Payment	Shadow Log
Non Recovery of UK Link System (definition per UK Link manual)	N/A	All Failures recovery with in 5hrs	Repeated failure within the business day following recovery as defined in UK Link manual	£50 per user affected 1st repeated failure to increase by 100% for each subsequent failure within the business day per user affected e.g. £50, £100, £200, £400, £800	Yes, where failure can be attributed to inappropriate actions of a User, any liability payments will be suspended
Query Resolution GT Larger Supply Point Queries resolved	50% Larger 50% Smaller	(Duplicates excluded from 4 day incentive payment) 50% 85% 98% All Failures	 4 days 10 days 20 days >40 days	 £0 £5 £30 £70 (and for each additional period of not less than 20 Transco days)	Yes, refer to excluded queries in the SOS QM Operational Guidelines. Also in order to protect Users from potential gaming a current month daily limit for queries submitted will be applied.
Smaller Supply Point Queries resolved (Duplicates excluded from 4 day incentive payment)		50% 85% 98% All Failures	4 days 10 days 20 days >40 days	£1 £3 £6 £20 (and for each additional period of not less than 20 Transco days)	Yes, as I & C queries above
Query Resolution Metering (Transitional Standard to be removed from Network Code at Metering separation date)	50% Larger 50% Smaller				Yes, refer to excluded queries in the SOS QM Operational Guidelines. Also in order to protect Users from potential gaming a current month daily limit for queries submitted will be applied.
Larger Supply Point Queries resolved		50% 85% 98% All Failures	4 days 10 days 20 days >40 days	£0 £5 £30 £70 (for each	Larger Supply Point Queries resolved

Network Code Development

				additional period of not less than 20 days)	
Smaller Supply Point Queries resolved		50% 85% 98% All Failures	4 days 10 days 20 days >40 days	£1 £3 £6 £20 (for each additional period of not less than 20 days)	

NB: The 4 day standard for both Smaller and Larger supply point queries will be increased to:

65% after 6 months

75% after 12 months

80% after 18 months

from the first day of the month following Modification implementation date.

The 10 day standard for both Smaller and Larger supply point queries will be increased to:

90% after 6 months

95% after 12 months

from the first day of the month following the Modification implementation date

A summary of the standards within the table is shown below highlighting the areas of change:

New Standards

- Query Resolution
- UK Link System Failures
- UK Link System Recovery
- CV Data - Revisions

Increased PPL's

- Referred Nominations
- Site Visit Appointments
- DM Reads
- Suppressed Reconciliation (NDM/DM)

Increased Incentive Payments

- DM Reads
- CV Data
- Invalid Offers
- Referred Nominations
- File Formats

- Failure to Provide Gas

Overall Cap & Sub Caps

The Development Work Group agreed that the majority of standards should be of equal value with each sub cap set at a level of £5m. However, Users represented at the Development Work Group proposed that 3 of the standards should have a different weighting and Query Resolution was set at £10m, File Formats at £3m and Site Visits at £2m. The absolute cap and sum of the sub caps remain at their current levels of £50m and £60m respectively. This should ensure that a balanced incentive regime is in place. However, should liability payments reach the absolute cap in any one period, sub cap payments (and any components within each sub cap) will be pro rated such that the absolute cap is not breached.

For some of the standards the principle of pro rating sub caps will also apply to customer types, that is, there would be a further pro-rating between 'Domestic' and 'Industrial & Commercial'. This will be a 50% split for all of the applicable standards apart from Referred Nominations which will be 20% for Smaller Supply Points and 80% split for Larger Supply Points. This would ensure that a major failure in one area would not preclude liabilities being paid to the other customer area. The existing consumption threshold of 73,200kWh would be used and for this reason (to be consistent with the Network Code) the terms 'Smaller' and 'Larger' Supply Points will be adopted.

Shadow Log

It was agreed by the Development Work group that the following principles should apply to any shadow log arrangements and the group should also determine detail of the rules of operation for individual standards.

- Operation of any shadow arrangement must be cost effective and simple to operate for both Transco and Users.
- The shadow log should act to moderate User behaviour and inhibit the generation of liability payments from Transco through inappropriate action (or inaction).
- Polluter pays', i.e. the User(s) responsible for problems will be excluded from receipt of any payments in relation to the respective standard.
- Scope of shadow log arrangements should in the first instance be limited to those activities that impact on the standard of service process to which they relate.

Volume Scaling for User Queries

It was agreed during the Development Work Group discussions that variable volumes of query submissions could impact on the ability of Transco to meet its performance standards for resolving queries. Although, at an aggregate level, individual peaks would be smoothed out by troughs from other Users it was felt that there could still be times when sudden increases in the daily volumes of queries submitted (whether this be collectively by small increases by a number of Users or by very large submissions by one or two Users) could occur and this would result in an increased probability of not meeting planned performance levels.

As a consequence, it was agreed that a volume limit be applied for the Query Management regime which will protect Transco from large swings in query volumes, and avoid any perverse incentive for Users to submit volumes en-masse in order to hinder Transco's ability to meet the obligations introduced by such a regime. The volume scaling also seeks to encourage moderated behaviour from all Users so that any inappropriate action of one or a few Users, by the submission of excessive query volumes, could impact on the performance afforded to all other Users.

It was recognised that some Users submit very small volumes of queries every month. For these Users, an absolute increase of for example 5 queries, could represent a 100% increase in the average submitted volumes. As the impacts are minimal for these number of small queries, it was agreed that a lowest value be used for a Users current daily limit of queries. Transco undertook an analysis of Users that submit low level query volumes and proposed a figure of 5 for each of the 4 categories of queries. However, as the members of the Development Work Group did not agree this unanimously, it was agreed that this figure (on page 14 of the Standards of Service Query Management Guidelines) should be considered within the views of Users during the consultation process for this Modification Proposal.

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

The additional standards and measures, together with the tightened service standards, further enable an efficient and economic system to operate consistently within the industry.

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

No such implications have been identified.

b) development and capital cost and operating cost implications:

It is expected that development costs would be incurred but that they would not be significant. In terms of operating costs Transco does not believe that they will be significantly different to those currently being 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:

Transco's costs would be treated as normal operating costs.

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

No such consequences have been 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

Implementation of the Modification Proposal would result in a package of changes to the Network Code Standards of Service liability regime. Implementation would give rise to the inclusion of a number of new standards, as well as the deletion or amendment of others. On

balance, the inclusion of the new standards, coupled to either a rise in Planned Performance Levels ("PPLs") or payment values relating to the remaining standards, Transco's level of contractual risk would be increased as a result of implementation.

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

An initial system impact analysis has identified that implementation would require additional functionality to be introduced to some of Transco's computer systems in order to monitor performance and generate reports. The full impacts of any potential system changes have yet to be determined. Shippers may also need to amend any systems they have in order to monitor the new liabilities.

7. The implications of implementing the Modification Proposal for Users

Users at the Development Work Group confirmed that although no specific analysis had been undertaken, they anticipated that the implications would be relative modest and would be largely procedural.

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

No such implications have been 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

No legislative or regulatory obligations have been identified.

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

Advantage

The development process has allowed Users to focus on the operational areas that are most important to their businesses:

The new standards are related to

- Query resolution
- UK Link System Failures
- CV Data (Revisions)

It has also allowed shippers to dispense with liabilities for other standards where the performance is now consistently high.

Disadvantage

The only disadvantage identified through discussions with the Development Work Group was that some of the services with liabilities associated could exist outside the Network Code as contestable services and, as such, certain elements of the package could act as a barrier to competition.

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

Representations are now sought.

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

Implementation of this Modification Proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

This proposal is not required to facilitate any such change.

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

Transco will need to develop processes, reporting and systems to support the implementation of this Modification Proposal. Users have indicated that they may also need to undertake some work to develop reports and processes.

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

The proposed implementation timetable is as follows:

Draft Modification Report Issued	- February
Final Modification Report Issued	- March
Ofgem Decision	- [Month]
Implementation Date	- [Month + 3 months]

A period of 3 months is required by Transco from the date of the Ofgem determination to develop systems, processes and reporting.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of the Modification Proposal.

The Standards of Service Query Management Operational Guidelines and GRE Invoice Query Incentive Scheme Methodology are supporting documents to this legal text.

17. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Steve R Phillips
Director of Shipper Services

Date: