

Draft Modification Report
Suspension of Smaller Supply Point AQ Amendments for 2003
Modification Reference Number 0614

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

Transco continues to calculate the Provisional AQ for all Supply Points and notify Users within current timescales.

Users can submit amendments for Larger Supply Points (LSPs) and any meter crossing the SSP/LSP threshold in either direction. Users cannot submit amendments where the AQ remains in the SSP market. Transco will reject any SSP to SSP amendments.

Manifest errors can be identified and amended by Users as part of the threshold crosser analysis. Any SSP AQs that move above the 73,200 kWh threshold (and visa versa for LSPs) will be captured in this analysis.

Users will be reliant upon Transco's provisional AQs for meters that remain in the SSP market.

2. Transco's Opinion

Transco is of the opinion that this Modification Proposal should not be implemented for the following reasons:

- It is inconsistent with the view expressed at the AQ sub-group by Users and Transco that Provisional AQ amendment activity should be permitted subject to introduction to the Network Code of the AQ amendment governance criteria described below.
- There would be no opportunity for Users to request a SSP AQ amendment (with the exception of 'threshold crossers') regardless of the extent to which the Provisional AQ is incorrect. Transco believes that this would be a particular concern for Users taking ownership of a Supply Point which has had a Provisional AQ calculated on the basis of erroneous meter read or asset data previously provided to Transco by the 'outgoing' User.

The Annual Quantity (AQ) sub-group of the Supply Point & Billing Workstream has recently addressed the requirements of the 2003 Smaller Supply Point (SSP) AQ review. The sub-group identified a number of changes regarding the AQ amendment activities currently undertaken by Users. Sub-group members have identified a series of measures designed to ensure the Network Code reflects the circumstances in which amendment of the Provisional AQ provided by Transco as part of the review process may be requested. Following completion of legal drafting, Transco has undertaken on behalf of sub-group members to raise an Urgent Modification Proposal to incorporate the relevant provisions within the Network Code prior to the commencement of the 2003 review. The sub-group has further

identified that the possibility of undertaking an AQ audit focussed on User activity be investigated. Transco has recently raised this matter within the Network Code Committee. The sub-group is also committed to discussing the longer term strategy for the review of AQs.

Transco believes that the measures identified by the AQ sub-group are the most appropriate changes to the AQ process for this and future years reviews.

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

The AQ review process defined within the Network Code allows Users to appeal a Provisional AQ where circumstances permit. To introduce a regime whereby SSP AQ amendments would not be permitted in any circumstances would prevent a Registered User from ensuring that AQs within its portfolio reflect the anticipated consumption of the Supply Point. In Transco's view, this would not be consistent with its requirement to operate the pipelines efficiently and economically. Therefore, Transco believes that this Modification Proposal does not better facilitate its GT Licence Relevant Objectives.

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:

No such implications have been identified

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:

Not applicable.

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

Transco is not aware that any additional contractual risk would be introduced if this Modification Proposal were implemented

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

There are no such implications for Transco. It is possible that Users would need to alter their computer systems to accommodate implementation of this Modification Proposal.

7. The implications of implementing the Modification Proposal for Users

It is likely that Users would need to review relevant processes to accommodate implementation of this Modification Proposal.

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 such consequences have been identified.

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

Advantages:

- The proposer claims that implementation would provide a level of certainty during the 2003 SSP AQ review given that a stage whereby AQs may be challenged and changed is removed.

Transco's response: Transco and members of the AQ sub-group are of the view that the volume of AQ revisions should be minimised. Transco has stated that it intends to raise a Modification Proposal which would permit AQ revisions, but only in certain circumstances. This solution would permit the 'level of certainty' that the Proposer views as an advantage while allowing significantly 'incorrect' AQs to be corrected. Transco believes this course of action is preferable to preventing all SSP AQ revisions.

- The proposer claims that risks to RbD and energy allocations would be reduced.

Transco's response: Transco believes that implementation of this Modification Proposal would increase such risk given that there would be no opportunity for the User to challenge a SSP AQ calculated on the basis of incorrect data.

- The proposer claims that last minute costs associated with system and process development for the 2003 AQ review would be avoided.

Transco's response: Transco believes that any costs incurred as part of the AQ review process (taking into account any such costs which may be incurred as a consequence of the AQ sub-groups intention to seek enhancement of the AQ amendment provisions as indicated above) outweigh any advantage arising as a consequence of suspending the 2003 AQ amendments process.

- The proposer claims that a temporary solution for the 2003 review would be provided to afford adequate time to review the rules associated with the amendment phase and undertake a wider review of the RbD process.

Transco response: Transco believes that the AQ amendment rules have been adequately reviewed within the AQ sub-group and appropriate rules scoped as a pre-requisite for the 2003 AQ review. Transco does not believe that a 'temporary solution' is necessary to permit the 2003 review to proceed. Transco supports measures to consider the wider RbD issues and intends to raise this matter within the appropriate sub-group.

Disadvantages:

- Suspension of the SSP AQ amendment phase for 2003 removes the opportunity for the Registered User to challenge a Provisional AQ provided by Transco which may have been calculated based on erroneous data.
- Experience from previous SSP AQ reviews has shown that in the majority of cases, where the AQ has recalculated as a consequence of a data error, the Provisional AQ value has increased substantially within the SSP threshold. Unless the opportunity to amend an incorrect AQ is available, there is the potential that where a process is based on aggregate SSP AQs, such as LDZ NDM demand allocation and certain invoicing activities, the share borne by a User may not reflect the 'true' position.
- Suspension of the SSP AQ amendment phase for 2003 would be inconsistent with a range of measures developed by the AQ sub-group of the Supply Point & Billing Workstream governing the 2003 AQ amendment process.

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 invited.

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

Implementation of this Modification Proposal is not required to facilitate any such change.

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

No program of works would be required as a consequence of implementing this Modification Proposal.

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

In view of Transco's recommendation, no implementation timetable is proposed.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation of this Modification Proposal.

17. Text

Transco does not recommend implementation of this Modification Proposal. Legal text has therefore not been provided.

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:

Terry Grove
Service Delivery Manager

Support Services

Date: