46/05/02/05

ofgas

26 April 1996

Direct Dial: 0171-932-1645
Our Ref :
Your Ref :

Brian Withington
Manager, Service Development
British Gas TransCo
31 Homer Road
Solihull
B91 3LT

Dear Brian

Urgent Modifications to the Network Code

On the 11 April 1996 TransCo requested that Ofgas consider four urgent modifications proposals:

0016 - Entry Allocations Close-out date
0017 - Cash-out and reconciliation prices for March 1996
0019 - Scheduling charges during March 1996
0014 - Margins and Top-up anomalies

On 18 April you wrote to Ofgas attaching a Report on the consultation and Recommendations for the above urgent modifications. Ofgas subsequently approved urgent modification 0016 - Entry Allocations Close-out date. We are now in a position to respond on the other modification proposals. I will take each in turn.

<u>0017 - Cash-out and reconciliation prices for March 1996</u>

We have looked carefully at the proposal of 11 April, the Modification Report of 18 April, and shippers representations. This proposal could potentially be commercially significant for shippers, and there are also a number of complex arguments as to the pros and cons of making such a modification. We found the analysis TransCo provided on this proposal weak. We have therefore spent some time undertaking our own internal analysis and review of the proposal based on your report, and the additional information we requested from you during the process.

On the basis of the information available to date, we were minded to accept the recommendation that reconciliation for March 1996 should be at same value of 0.6701 p/kwh (the 30 day SAP) as the Code specifies for cash-out. However, having received Chris Le Fevre's letter of 25 April 1996 in which he states - "We do not believe that Urgent Modification proposal 0017 represents material detrimental effect on any shippers' business, and we think that this is borne out by the shipper responses to this proposal" - we are now in a position to approve the modification 0017 as TransCo recommend.

We will send the formal notice of approval under separate cover to this letter later this afternoon, upon which you can circulate to shippers the notice.

0019 - Scheduling charges during March 1996

We found TransCo's proposal and Modification Report weak, containing no analysis. Nevertheless, we have looked carefully at the arguments presented, and again spent some time analysing the proposal ourselves.

We are not minded to approve this proposal. However, before taking a final view could TransCo please confirm that the following analysis is accurate or comment otherwise:

- If scheduling charges are not levied in March: first, shippers which were better prepared and made more accurate nominations, perhaps incurring additional cost to do so, receive no benefit compared to shippers that were poor at meeting their nominations; second, credits to the cash neutral pot are foregone and therefore TransCo is exposed to higher smeared charges above the cap.

- Input scheduling charges apply if suppliers fail to deliver against the shippers' nominations - this may occur due to a field alert or because of priority rights in the allocation process. Shippers' exposure to scheduling charges in this way has been anticipated and this is not an issue specific to March. Furthermore, there is no reason for the shipper to need access to information from TransCo.

- Large daily metered loads (over 2 mtpa) are nominated at a site level and scheduled individually. Smaller interruptible loads are nominated and scheduled in aggregate for each LDZ. [Note that other small DM sites are currently treated as NDMs and are not subject to scheduling charges].

- The very large daily metered customers (over 50mtpa) are mostly power stations plus some process loads which have telemetry. There is therefore very accurate daily information available on actual offtake and shippers should be able to minimise their exposure to scheduling charges. There is a concern as to the extent to which shippers have access to the telemetered information but this point has been anticipated in setting the scheduling parameters.

- Daily metered customers (2 to 50 mtpa) and smaller interruptible sites: While the general concern over access to reliable datalogger information has been well rehearsed and addressed in part through the liabilities package, portfolio issues are still a problem. However, most of the common portfolio problems can be corrected or may have no impact on scheduling charges, for example, (i) if a large DM site is wrongly classified as an NDM then no scheduling charges are applicable; (ii) if the portfolio contains sites that do not belong to the relevant shipper then these can be withdrawn, (iii) if the site is wrongly assigned to another shippers' portfolio then the charges are not applied to the correct portfolio.

On your response to the above points we will make a final decision.

0014 - Margins and Top-up anomalies

We are still considering this and hope to issue a decision on this by the week ending 3 May.

We are conscious of the fact that the modification process is a continuous learning exercise especially at this early stage of the Network Code. However, in the future for modifications that have the significance of the above proposals (particularly 0017 and 0019) we would expect the modification proposal and subsequent report and recommendations to contain more analysis, data, and a significantly more comprehensive explanation of the relevant arguments than were provided for the above.

The content of this letter should be treated as confidential, as it is market sensitive. You should not inform any interested party of our view until a formal Direction has been issued.

I await your response to this letter.

Yours sincerely,

Andrew Salmon

cc: Chris Le Fevre
Richard Gray