

Modification Report
Modification Reference Number 0110
Calculation of Cumulative Imbalance Tolerance for New Shippers

This modification report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Circumstances Making This Modification Urgent

In accordance with Rule 9.2(a) Ofgas has agreed that this modification should be treated as URGENT because Shippers signing up after 1st March 1996 have been exposed by having a low CITQ for the first 29 days of operation.

2. Procedures Followed

Transco agreed with Ofgas (and has followed) the following procedures for this Proposal:

18th December 1996	Proposal sent to Ofgas
20th December 1996	Ofgas agreed as Urgent
23rd December 1996	Proposal circulated
23rd January 1997	Representations close out 5pm
27th January 1997	Modification Report to Ofgas
20th February 1997	Amended report reissued to Ofgas

3. The Modification Proposal:

Under this proposal the Cumulative Imbalance Tolerance Quantity (CITQ) of Users who signed up to the Network Code after 1st March 1996 will be recalculated for the first 30 days of their operation, in accordance with the method used for all other Users. The cumulative imbalance cashout during this period, including any adjustments to the month end cashout, will be re-examined and any overcharged amounts will be credited through the ad-hoc invoice.

In accordance with the principle established in modifications 41 and 64, all corrections to cumulative imbalance cashouts will be allocated through Balancing Neutrality in the Energy Balancing Invoice which is issued at the same time as the corrections to individual shippers.

The proposal will be applied to any Users signing up to the Network Code after 1st March 1996 and becoming operational before the end of Phase 2.

Following a request from Ofgas, the legal drafting was modified so that the modification would make no retrospective adjustments to Shippers signing up in Phase 2.

4. Transco's opinion:

For the first 30 days of operation of the Network Code a Shipper's CITQ was calculated as 3 times the average throughput on days since the 1st March 1996. This avoided the normal Code requirement to calculate the tolerance based on 30 days of throughput, which would have resulted in an ineffectively small tolerance.

However, no such provision was made for new Shippers signing up after 1st March 1996 and consequently they have been exposed by having a low CITQ for the first 29 days of operation, calculated in the extreme case as one day's throughput divided by 30 days. This was more material in Phase 1 where Users were exposed to a cashout at SMP if their cumulative imbalance exceeded the CITQ on the day. Under phase 2 the amount which can be carried forward in the cumulative imbalance and hence the maximum which could be cashed out on a day, is limited to 7,500 therms and cashout is at SAP.

Transco are of the opinion that this modification proposal should be implemented to relieve new Users of cumulative imbalance cashouts resulting from an excessively small CITQ calculated unfairly and in a manner which is not consistent with the CITQ of other Users.

Ofgas' rationale in requesting no retrospective changes to Phase 2, detailed in the attached letter, is acceptable to Transco. Transco's analysis of Shippers affected by this change to the proposal has indicated that the impact is not material.

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

Users who signed up to the Network Code after 1st March 1996 will have their CITQ calculated in the same way as other Users. This will reduce the exposure to daily cashout of their cumulative imbalance in the first 29 days of operation.

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

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

None.

b) development and capital cost and operating cost implications

A manual work-around will need to be performed for new Shippers while the absolute tolerance and cumulative tolerances are applicable. The costs of this are expected to be negligible.

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 would form part of normal operating expenditure.

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

Transco is not aware of any impact on price regulation.

7. 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:

This modification reduces the financial exposure faced by new Shippers and should therefore reduce the level of contractual risk faced by Transco.

8. The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers;

Transco is not aware of any impact on Transco or Shipper systems.

9. The implications of implementing the modification for Relevant Shippers.

Relevant Users will be relieved of cumulative imbalance cashouts resulting from an excessively small CITQ calculated unfairly and in a manner which is not consistent with the CITQ of other Users. Retrospective calculations of the cumulative cashout will have an impact on other Users through the neutrality mechanism.

10. The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party;

Transco is not aware of any impact on terminal operators, suppliers, producers or any Non-Network Code Party.

11. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal;

Transco has not been informed of any consequences on the legislative and regulatory obligations and contractual relationships of implementing this modification.

12. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal;

Advantages - implementation of this modification will lead to the calculation of the cumulative imbalance tolerance for new Shippers, during the first 29 days of operation, which is consistent with the method used for Users who started operating on 1st March 1996.

13. Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report;

A total of six representations were received of which four were in favour of the modification.

BP agree with this modification proposal subject to revised legal drafting. Transco agree that the original drafting does not adequately address the problem and has incorporated new drafting in this report. The change does not affect the way in which the CITQ for "original" Shippers is calculated while still achieving equitable treatment for new Shippers.

In response to Total's representation Transco would like to say that the prospective impact of many new Shippers cannot be estimated because it is dependent on the difference between month end and daily SAP. However, Transco believe that this is irrelevant as it detracts from the main issue that there is inequitable treatment for some Shippers as the Network Code drafting currently stands.

United reject the proposal on the assumption that new Shippers will initially have a small load and consequently any cumulative imbalance will be negligible. For retrospective cases this is not the case and Transco is of the opinion that this cannot be assumed prospectively, given that the proposal impacts the first 29 days of operation.

BGT's main objection is based around the calculation of the 30 day SAP being the same for all parties which Transco believes is not relevant to this modification and the issue is SAP versus SMP exposure. This proposal addresses the calculation of the CITQ in the first 30 days of operation of a Shipper and the cashout of cumulative imbalances through eventualities which were overlooked during Network Code drafting. As a result, new Users, or reorganised companies where the founder company's tolerance was not passed through, have been materially affected because of a different method of calculating the CITQ compared to that used for "original" Users. The costs incurred by the new Shipper would not have arisen if the same calculation method had been used as for other Users and therefore Transco is of the opinion that it is incorrect to say that these costs are "legitimate". Transco feel that this oversight should be rectified through this modification proposal to provide equitable treatment for all Users. In relation to the urgency of this proposal, Transco feel that this was adequately addressed in Ofgas' fax regarding this matter.

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

This modification is not required to facilitate compliance with safety or other legislation.

15. 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;

This modification is not required to comply with the above clause.

16. Programme of works required as a consequence of the implementation of the Modification Proposal;

No programme of works is considered necessary.

17. Proposed implementation timetable;

Transco recommend that this modification is implemented for Phase 1 with effect from 1st March 1996, and prospectively for Phase 2.

18. Recommendation for the implementation of the modification;

Transco believe that this modification proposal should be implemented to provide equitable treatment for Users in respect of the calculation of their CITQ.

19. 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.

20. Transco Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks a direction from the Director General in accordance with this report.

21. Text provided pursuant to Rule 9

Transition Document Part II

Paragraph 6.3.2(c)

Amend paragraph 6.3.2(c) to read:

- (c) the "**Cumulative Imbalance Tolerance Quantity**" is the quantity of gas which is:
 - (i) in Phase 1, 3 times the arithmetic mean of the User's Imbalance Tolerance Quantity under paragraph 6.1(i),
 - (ii) in Phase 2, 7.5% of the arithmetic mean of the sum of the User's UDQIs and UDQOs

for each of the 29 Days (or if fewer the number of Days from 1st March 1996 or if later, the earlier of the date on which the User was first treated as delivering or offtaking quantities from the System or on which the User first made a Trade Nomination) preceding the NCI Day and the NCI Day (provided that from 1st September 1996 to the day preceding the date on which the Code Modification by virtue of which (ii) above applies in its current form, the Cumulative Imbalance Tolerance Quantity shall be 7.5% of the arithmetic mean of the sum of the User's UDQIs and UDQOs, for each of the 29 Days preceding the NCI Day and the NCI Day)."

Paragraph 6.3.4

Add a new paragraph 6.3.4 as follows:

"6.3.4 Where the User Accession Date in respect of a User occurred before the date of the Code Modification by virtue of which paragraph 6.3.2(c)(i) and (ii) apply in their current form, and as a result the amount of any Energy Balancing Charges invoiced to the User was not determined in accordance with those paragraphs, the amount

thereof will be redetermined and an appropriate invoicing adjustment made in accordance with Section S."

Signed for and on behalf of British Gas Transco.

Signature: 

Date: 21st February 1997

Name: Dr John F. Lockett

Position: Commercial Manager Network Code

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 British Gas Transco that the above proposal be made as a modification to the network code.

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

Signature:

Date:

Name:

Position:

The network code is hereby modified, with effect from _____, in accordance with the above proposal.

Signature:

Secretary Modification Panel
British Gas Transco

thereof will be redetermined and an appropriate invoicing adjustment made in accordance with Section S."

Signed for and on behalf of British Gas Transco.

Signature:

Date: 21st February 1997

Name: Dr John F. Lockett

Position: Commercial Manager Network Code

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 British Gas Transco that the above proposal be made as a modification to the network code.

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

Signature:

Date: 20/2/97

Name: KIRAN HANKS

Position: HEAD OF NETWORK OPERATIONS

The network code is hereby modified, with effect from 1st MARCH, in accordance with the above proposal. 1996

Signature:

Secretary Modification Panel
British Gas Transco

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.