Modification Report
Modification Reference Number 0123
Registration of Multiple Users at Large Supply Points and CSEPs

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

1. Circumstances making this Modification Urgent

Ofgas have accepted this Modification Proposal as urgent because they believe it will increase supply competition to large End Users and enable End Users to have access to gas from other Users during periods of commercial interruption.

2. Procedure Followed

Transco have agreed with Ofgas the following procedure for this proposal:

5th February	- Modification Proposal received by Transco
5th February	- Modification Proposal submitted to Ofgas
11th February	- Modification Proposal deemed Urgent
12th February	- Modification Proposal circulated
21st February	- Close out for Written Representations.
27th February	- Final Modification Report submitted to Ofgas.

3. The Modification Proposal

The Proposal raised by Enron is outlined below;

- To amend relevant provisions of the Network Code to allow multiple users and/or multiple transportation arrangements (firm or interruptible) to register supply points where the annual quantity of a supply meter point exceeds 58,600,000 kWh (2,000,000 therms), ("large sites") and CSEPs.

- Registration of multiple users at large sites will allow the end user at such sites to dictate which Registered User shall deliver gas to the site on a daily, monthly, seasonal or annual basis.

- The proposed modification will eliminate the need for prior shipper approval of the basis on which the quantity taken off each day is to be apportioned between such users. Instead, such apportionment shall be dictated by a predetermined allocation methodology (PDA) established by the end user and communicated to Transco and the relevant Registered Users through the nomination process.

- The PDA can only be changed prospectively. Retrospective adjustments shall be prohibited unless the relevant Registered Users and the end user submit their written agreement to such change to Transco.

- PDA arrangements will be contained in a NExA or similar agreement between Transco and the requisite end user.

- A similar mechanism will be implemented to allow multiple shippers to deliver gas to downstream parties situated at CSEPs, such as Interconnectors.

4. Transco's Opinion

Transco believe the request for an allocation method at CSEPs is unnecessary; Network Code NExA rules already provide for this and overlapping rules would only add confusion. In any event, allocation arrangements at unmetered CSEPs would be unworkable for reasons of auditability.

Furthermore, Network Code already allows End Users the freedom to negotiate their supply from several Users. Current Sales Contracts between Users and End Users do not facilitate more than one supplier, however a `lead shipper' concept does enable more than one supplier at a supply point, providing adequate contractual provisions have been agreed at the outset.

Transco share the numerous concerns of Users that this Modification is short of essential detail. The discussion of allocation agreements at supply point level has been the subject of thorough debate through the Review of Modification 0018. This Review Group is due to conclude soon. Transco believe that the further proposals suggested by this Modification should more appropriately be included in the Terms of Reference for Modification 0018, and that this Work Group will be able to offer the Enron proposal fuller consideration alongside all other related issues.

Furthermore, discussions over Modification 0018 agree that allocation arrangements could be introduced and charges applied based on the cost of providing the service. These costs will be targeted to the individual allocation arrangements, but the treatment of revenues has so far been the major stumbling block to offering this service.

An attempt to implement the Proposal at this juncture would pre-judge the outcome of these unresolved issues, and result in significant extra administrative burden and associated cost. To handle a proliferation of allocation arrangements effectively, Transco would need completely to redesign, develop and test all system functionality for Sites and Meters, Invoicing 95 and AT-Link.

Consequently, Transco believe this Modification should not be approved and as such, no drafting is attached.

5. **Extent to which the Modification would better facilitate the relevant objectives**

Enron assert in their Proposal that this Modification will increase competition amongst shippers and registered suppliers, and will lead to higher capacity utilization. **Transco is committed to such competition, but believe it should be free to develop naturally under market forces without adding unnecessary complexity to the Network Code. Natural competition will ultimately lead to higher capacity utilization, as Sales Contracts adapt to reflect the inherent flexibility of the supply market and the individual needs of End Users.**

Enron also maintain that there is currently some form of *"barrier to entry"* at supply points. **Transco refute this suggestion entirely. It is unclear how the Network Code in any way restricts the rights of Users and End Users to enter freely into multi-laterally negotiated Sales Contracts. On expiry of Sales Contracts, the Registered User automatically ceases to hold the supply point capacity and other Users are free to negotiate fresh terms with the End User.**

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

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

Transco is aware of no such implications.

b) development and capital cost and operating cost implications

This Modification would demand significant immediate investment to support the surge in manual workload, and a significant prolonged investment in systems redevelopment.

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 believe the costs for provision of this allocation service are not currently allowed for under the Price Control Formula and that the costs, together with a reasonable margin, should be recovered from Users using this service with revenues received falling outside the Price Control Formula.

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

Transco are not able at this stage to determine what such consequences might be.

7. **<u>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</u>**

Transco's level of contractual risk remains unchanged by this modification.

8. **<u>The development implications and other implications for computer systems of Transco and related computer systems of Relevant Users</u>**

To handle effectively the increase in workload envisaged by this Modification, Transco would need to completely redesign, develop and test all system functionality for Sites and Meters, Invoicing 95 and AT-Link. This would need to be mirrored by similarly fundamental changes in the systems of relevant Users.

9. **<u>The implications of implementing the modification for Relevant Shippers</u>**

Transco does not believe this Modification helps Users to optimise the terms of Sales Contracts. The current proposal would only convolute the transportation regime, bringing with it significant logistical and financial implications which would be borne by both Transco and Users.

10. **<u>The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party</u>**

Transco has not been made aware of any such implications.

11. **<u>Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant User and Non-Network Code Party (if any), of the implementation of the Modification Proposal</u>**

Transco is not able to determine at this stage what any consequences would be.

12. **<u>Analysis of any advantages or disadvantages of the implementation of the Modification Proposal</u>**

Advantages:

- The Modification would eliminate the need for prior User approval of the basis on which the quantity offtaken each day is apportioned between such Users.

Disadvantages:

- The Modification would add unnecessary complexity to the Network Code.

- The Modification would commit both Transco and Users to a significant administrative burden and extra costs.

- Costs relating to management of allocation processes would be unfocussed.

- Retrospective changes to allocations open up gaming opportunities that erode incentives to book capacity accurately, distort pricing signals and increase community risk.

- Representations received expressed concern that this Modification could undermine existing Sales Contracts and the concept of interruption.

- End Users could dictate the offtakes of Users without the User's agreement.

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

Transco received 18 written representations from Users before close-out. 11 of these representations express numerous concerns about the practicalities of the Modification, whilst recognising there is some value in the principle of the Proposal. 5 representations (Energy Intensive Users Group, Major Energy Users Council, PanEnergy, Powergen, Scottish Hydro) support the Proposal and 1 representation (Alliance) strongly opposes the Proposal. Enron, who raised the proposal, also support it.

The concerns expressed in written representations are summarized below;

(a) Need for the Modification

Several written representations, and the Modification Proposal itself, note that current Network Code rules already allow for multiple Users at a supply point, providing there is agreement amongst all such Users. **Transco emphasize that the Network Code already facilitates multiple Users at a supply point, providing they have made adequate provision for this in their Sales Contract by ensuring the co-operation of relevant parties. Transco also believes that the concept of a lead shipper is a cost-effective way of facilitating allocations at supply points and that the appointment of a lead shipper need not constrain the terms of a multi-lateral Sales Contract.**

(b) Concern the Modification is Inappropriate

Representations query the need to modify the Network Code in order to introduce improved allocation methodologies. **BGT** make it clear in that allocation methodologies of the sort proposed by this Modification should properly belong in the Sales Contract and do not need to be prescribed in the Network Code. This view was supported by 3 representations that suggest the Modification primarily serves End Users who have entered into sales contracts without fully appreciating the commercial obligations. **Transco do not believe this Modification is necessary to help suppliers and End Users optimise allocation methodologies, or indeed that it is appropriate to modify the Network Code to address inadequacies in a contract between End Users and User(s).**

(c) Absence of Adequate Detail

Representations emphasize how the absence of adequate detail in Enron's proposal makes it impossible to understand how the stated principles would translate into working mechanisms. Consequently, the majority of written representations (65%) indicate that an Urgent Modification is inappropriate and the development of these concepts would better be served either through a dedicated Review Group (a view held by **BP, Quadrant, Kinetica**) or by incorporating it into the Modification 0018 Review Group (the suggestion of **BGT, Texaco, Eastern, Amerada, Alliance, AGAS). Transco share Users' concerns that Enron's Proposal is not accompanied by a detailed explanation of how the proposed allocation mechanism is intended to work. Transco suggest the principles proposed in this Modification should be carried into the Modification 0018 Work Group where the practicalities may be properly discussed.**

(d) Impracticalities of Implementation

Allocation arrangements that relate to pre-Code contracts (which Transco agreed to continue to support post-Code) are currently administered manually. It is for this reason, as **Amerada** note, that Network Code (G1.7.2) encourages a `lead shipper' approach for new sites as a means of avoiding the extra expense and effort of allocations. **To handle effectively the increase in workload envisaged by this Modification, Transco would need completely to redesign, develop and test all system functionality for Sites and Meters, Invoicing 95 and AT-Link.**

As **Quadrant** indicate, Transco and Users are therefore tied to labour-intensive and time-consuming data manipulation both `on the day' and `after the day' for all allocation agreements. These manual processes hamper Transco's ability to determine shipper's energy balancing liabilities on a real time basis. **BP** stress that this Modification would further complicate and stress the allocation process, endangering the quality of information and frustrating Transco's attempts to manage credit risk in a timely and equitable manner. **Transco believe the reliance on manual processes should be minimized until the industry has finalised its approach to allocations and the treatment of related charges.**

(e) Pricing Implications

As representations note, this Modification would lead to a sudden proliferation of allocation agreements. This surge in workload would need to be reflected by significant new resources. **Amerada** believe that new allocation agreements should only be allowed if the relevant shippers bear all of Transco's associated costs. **The Modification 0018 Review Group has determined that additional costs of this sort will be re-charged to relevant Users. Transco believes that expenses resulting from this Modification represents a significant hurdle which must be considered within the industry. Treatment of the revenues is also vital.**

(f) Determination/Modification of Allocation Methodology

The Proposal gives End Users unilateral rights to change the allocation methodology even if Registered Users object. **BGT** and **Eastern** oppose this, on the grounds that Users must have rights to veto changes that may have an acute impact on them. The Proposal also enables allocations to be altered retrospectively if the Relevant Users and End User so agree, although no mention is made of how far back such changes would be permitted. **Quadrant** oppose any such retrospective changes, whilst **United** warn that changes must be confined to a time limit to avoid an impact on Energy Balancing. **Transco believe it would be impossible to manage allocations according to a methodology which could be altered unilaterally by the End User and also changed in retrospect. Moreover, Transco believes that retrospective changes to allocations offer a gaming opportunity which erodes incentives to book capacity accurately, distorts pricing signals and increases community risk.**

Representations, including those from **Eastern** and **BGT,** offer detailed reasons why the allocation methodology should not be held within a NExA, as proposed by the Modification. **Transco emphasize that NExAs are intended purely to hold physical offtake parameters, and it is entirely inappropriate for them to deal with detailed commercial allocation arrangements.**

(g) Concern the Modification Undermines the Philosophy of Interruption

Some representations maintain that by enabling an interruptible End User to switch between suppliers, the Modification may erode an End User's understanding of the mandatory nature of interruption, regardless of whether this interruption is due to commercial or capacity considerations. **BP** noted that "... *enabling End Users to circumvent certain types of interruption may adversely affect the efforts they will make to maintain a truly and readily operational interchangeability [of alternative energy].*" **Transco agrees that any convolution of supply arrangements must not be allowed to obscure interruption rules, and it is not clear from the Modification Proposal how interruption obligations would be shared amongst multiple Users at a supply point.**

(h) Concern the Modification Jeopardises Existing Supply Arrangements

Representations showed strong concern that End Users would be encouraged to break existing Sales Contracts, arranged in good faith with suppliers, in order to enter the sort of contractual arrangements proposed by this Modification. **Yorkshire Electricity** and **Eastern** maintain that a supplier with long-term supply arrangements must have their contractual rights protected, particularly where that supplier may have already committed to long term gas supplies together with associated capacity. Specifically, **Eastern** believe *"Transco should not be put in a position of operating an allocation agreement that breaches existing contracts."* **Transco believe it is inappropriate to make modifications to the Network Code that may undermine existing contractual arrangements outside of the Network Code.**

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 in this respect.

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 this clause.

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

This Modification is not required to comply with this clause.

17. Proposed implementation timetable;

No timetable has been agreed for the implementation of this Modification.

18. Recommendation for the implementation of the modification;

Transco recommends that this modification is not implemented, but that the principles of it are included in the area covered by the Modification 0018 Work Group.

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 not 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 (Urgent).

No legal drafting is proposed.

Signed for and on behalf of British Gas Transco.

Signature:
Date: 27.2.97
Name: JOHN LOCKETT
Position: COMMERCIAL MANAGER NETWORK CODE

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.