

Modification Report
Modification Reference Number: 0124
Amendment to DM Reconciliation Smearing

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 to ensure that DM Reconciliation Neutrality Charges generated in relation to DM Reconciliation are smeared in the appropriate manner.

2. Procedures Followed

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

7th February 1997 - Modification Proposal Received
26th February 1997 - Proposal Agreed as Urgent
13th March 1997 - Representations Received
18th March 1997 - Report to Ofgas

3. The Modification Proposal:

Under Section F of the Network Code, the Reconciliation Neutrality Charges associated with DM Reconciliation are smeared across the UDQOs of relevant Users in respect of DM Supply Point Components or relevant Metered Connected System Exit Point.

The proposal is to modify the Network Code to apportion LDZ DM Reconciliation Neutrality Charges across the UDQOs of relevant Users in respect of NDM Supply Point Components or relevant Unmetered Connected System Exit Points. The justification for this proposal is that before LDZ throughput is apportioned to NDM loads, under Section H (Demand Estimation and Demand Forecasting) of the Network Code, DM throughput is deducted from the total LDZ throughput. If reconciliation of an LDZ DM load is required, then by implication this would have impacted on the original NDM allocations and therefore the DM Reconciliation Neutrality Charges should be apportioned across these affected loads.

4. Transco's opinion:

In Transco's opinion the LDZ DM Reconciliation Neutrality Charges need to be apportioned across the loads which were originally impacted upon by any inaccuracies in DM output allocations. The current practice of apportioning DM Reconciliation Neutrality Charges across DM loads and Metered CSEPs is not appropriate, as there is no interaction between DM loads in relation to output allocations. However, the DM reconciliation amount will have originally been attributed to the NDM and unmetered CSEPs in the LDZ. Therefore it is these loads over which the DM reconciliation neutrality should be effected.

It was always recognised, during Network Code negotiations, that the NDM Reconciliation Neutrality process would approximate to a zero cash neutrality position over the period over which all reconciliations are carried out. There would also be changes in market share during the period but this would have minimal impact. It was also agreed that the most pragmatic and equitable method of apportioning the Reconciliation Neutrality Amounts would be on a monthly basis over the relevant UDQOs in the month.

This modification proposal does not change the principles, but enhances equitability by adding DM reconciliation adjustments into NDM Reconciliation Neutrality, when a DM meter is reconciled. The proposal separates out the DM load, which either has an accurate meter read or is reconciled to an accurate read, and which therefore should not be subject to further charges or payments through Reconciliation Neutrality. The charges or payments which should have originally been attributed to the NDM load, are correctly fed back and apportioned across the NDM Shippers.

In addition to the above correction to the reconciliation neutrality mechanism, Transco recognises that the reconciliation of NTS DM loads is also treated differently under the Network Code. To date, adjustment quantities due to DM reconciliation of NTS loads has been apportioned across DM load. Given that these sites do not impact on other DM load or NDM load in the LDZs, then any wrongly attributed loads offtaken by these sites only impact on NTS shrinkage. Any reconciliation of these sites should therefore be passed into balancing neutrality, as the costs of shrinkage is borne by all Users.

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

Under this modification proposal DM Reconciliation Neutrality Charges will be apportioned in an appropriate manner, thereby avoiding inequitable charging of relevant parties.

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 not aware of any impact on the System or any BG Storage Facility.

b) development and capital cost and operating cost implications

Additional costs attributable to adjusting the apportionment of neutrality will 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:

Any additional costs will be included in normal operating expenditure.

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

Transco is not aware of any consequences this proposal would have 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:

Transco is not aware of any changes to the level of contractual risk.

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 implications for computer systems.

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

DM Reconciliation Neutrality Charges will be apportioned appropriately across the Shippers who are affected by the incorrect DM output allocation.

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 and any Non-Network Code Party through the implementation of this modification.

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: - The modification proposal will result in the correct apportionment of reconciliation neutrality amounts since the Users who have been impacted upon by incorrect DM output allocations will be subject to the resulting DM Reconciliation Neutrality Charges.

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

8 representations were received on this Modification Proposal.

In response to AGAS', Gas Light & Coke's, and Texaco's representations, Transco note that during Network Code negotiations it was recognised that the reconciliation neutrality process would be affected by the period over which reconciliation was carried out but over time the process would approximate to cash neutrality. In addition any changes in market share during the period would have minimal impact. It was also deemed that the most pragmatic

and equitable method of apportioning the Reconciliation Neutrality Amounts was on a monthly basis over the relevant UDQOs in the month. This principle has not changed and the purpose of this modification is to ensure that the DM Reconciliation Neutrality Charges are smeared across the relevant UDQOs, which are those of the relevant NDM and unmetered CSEPs. The modification proposal is directed at correcting the reconciliation neutrality process and not the reconciliation process per se.

This modification is required so that DM reconciliation amounts can be attributed to the correct parties. After the gas flow day, NDM load is allocated following subtraction of DM load from total LDZ demand. However there is no connection between individual DM loads in an LDZ because DM allocations are based on actual meter reads. Consequently, reconciliation of DM loads should not be apportioned through Reconciliation Neutrality across DM load but should feed back through to the NDM loads.

It should be pointed out that the example given by United is not correct in that it assumes that DM reconciliation values are fed back to re-allocate the NDM load, which is not the case. Reconciliation neutrality smearing will take place for all NDM sites each month, irrespective of whether or not they have been reconciled. Over time this neutrality smearing will correctly apportion reconciliation amounts as NDM and DM reconciliation takes place.

In response to the MEUC representation it should be pointed out that NDM allocations are not revised as a result of DM meter reads - NDM reconciliation takes place when the NDM meter is read.

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

The 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:

The proposal will become effective for the invoices following Ofgas' direction.

18. Recommendation for the implementation of the modification:

This modification should be implemented immediately to ensure that DM Reconciliation Neutrality Charges are apportioned appropriately.

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

Section F

Amend paragraph 1.1.2(e) to read:

"...Values, in accordance with paragraph 6 (or in relation to NTS System Exit Points, paragraph 4)"

Amend paragraph 4.5.3(a) to include a new paragraph (vi) as follows:

"(vi) the amount of the Reconciliation Clearing Charges, relating to DM Reconciliation in respect of NTS Supply Meter Points or CSEP Reconciliation in respect of NTS Connected System Exit Points, payable by Transco in respect of Days in month m"

Amend paragraph 4.5.3(b) to include a new paragraph (v) as follows:

"(v) the amount of the Reconciliation Clearing Charges, relating to DM Reconciliation in respect of NTS Supply Meter Points or CSEP Reconciliation in respect of NTS Connected System Exit Points, payable to Transco in respect of Days in month m"

Delete paragraph 6.1.2 and replace with:

6.1.2 This paragraph 6 shall apply in respect of NDM Reconciliation, DM Reconciliation and CSEP Reconciliation, other than in respect of NTS Supply Meter Points and NTS Connected System Exit Points".

Delete paragraph 6.1.3(b) and replace with:

"(b) "**relevant UDQO**" means a UDQO of a relevant User in respect of an NDM Supply Point Component or relevant Unmetered Connected System Exit Point."

Section S

Amend paragraph 1.10(ii) to read:

"... Reconciliation Clearing Charge other than in respect of a NTS System Exit Point or a Reconciliation Neutrality Charge,...."

Signed for and on behalf of BG Transco.

Signature:



Date:

18th March 1997

Name:

Dr John F. Lockett

Position:

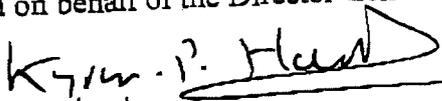
Commercial Manager Network Code

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 BG 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:

22/4/97

Name:

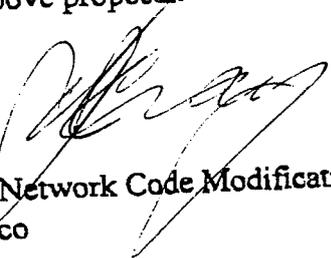
Kyran Hanks

Position:

Head of Network Operations

The Network Code is hereby modified, with effect from 29th APRIL 1997, in accordance with the above proposal.

Signature:



Secretary Network Code Modification Panel
BG Transco

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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.