Modification Report
New Network Code Validation Rules
Modification Reference Number 0439

Version 2.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

It is proposed that the requirements of paragraph M1.5.3 should be suspended for a temporary period and that, simultaneously Version 1 of the NCVR be replaced with Version 3 (as attached).

Transco would envisage that Version 3 would apply for an interim period pending the Network Code Validation Rules Sub Committee development of appropriate NCVR for the longer term. To facilitate this envisaged further development the provisions of M1.5.3. would be suspended until 30th June 2001. This will allow for a considered view of all relevant aspects pertaining to the liberalisation of Metering arrangements, and will provide sufficient lead time for any broader revised set of Validation Rules to be fully considered and developed.

2. Transco's Opinion

In the course of work carried out in preparation for metering liberalisation Transco has become aware that the Network Code Validation Rules (NCVR) in use since March 1996 are slightly different, as regards the temperature and pressure correction factors, from those published as Version 1. Temperature and pressure parameters are included in the NCVR to provide a check on the accuracy of the corrector equipment fitted on site.

The practical consequences of this are that Transco has accepted more DM reads than would have been the case had the values in Version 1 been fully implemented. In fact Transco would, under Version 1, be required to reject a significant proportion of all DM reads each day and replace them with substitute reads obtained seven days earlier (D-7). Transco believes that as the on-site equipment is extremely accurate and the test prescribed in Version 1 is too exacting, the widespread disruption likely to result from application of Version 1 would be unjustifiable and to no good purpose.

It is therefore Transco's view that it is the test which is at fault and not the reads themselves, and that application of Version 1 would be unsatisfactory for the industry.

During shipper meetings on 4th and 11th September a new two tier pressure and temperature test was evolved and proposed to replace the corresponding test in the NCVR. This modification to the Rules was further discussed and ratified in the Network Code Validation Rules Sub-Committee in its meetings of 16th October and 1st November. It is

now incorporated in the proposed Version 3 of the Rules (see attached) which Transco is seeking to implement by way of this Modification Proposal.

The Network Code provides a mechanism for changing the NCVR in section M paragraph 1.5.3. This requires a three month notice period to be given by Transco before any revision can come into effect. In late September 2000, Transco gave notice under this section that it would implement Version 2 (incorporating the pressure and temperature test actually applied since March 1996) of the NCVR. This notice period expires on 3rd January 2001.

For the avoidance of doubt, Transco wishes to implement Version 3 as recommended by the Validation Rules Sub-Committee without delay and in preference to either Version 1 or 2.

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

Transco believes that implementing the proposed Version 3 of the Rules, would better facilitate the relevant objectives of economic and efficient operation and the promotion of competition, when compared to the alternative of implementing Version 1.

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

a) implications for the operation of the System:

Implementation of Version 3 will avoid the potential for adverse energy balancing impacts which could arise were Version 1 to be implemented.

b) development and capital cost and operating cost implications:

There is a relatively small Transco systems development cost associated with the implementation of Version 3.

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 does not propose any special cost recovery in respect of this proposal.

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

Transco is not aware of any such consequences.

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

As Transco is presently applying parameters which are at variance with the Network Code, implementation of this proposal would remedy this position and as a result Transco's contractual risk would be diminished.

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

Other than the relatively minor changes to its own systems, Transco is not aware of any implications for computer systems.

7. The implications of implementing the Modification Proposal for Users

The proportion of DM reads failing validation is expected to marginally increase.

8. The implications of implementing the Modification Proposal for Terminal Operators,Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Transco is not aware of any such implications.

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

By introducing a workable set of industry agreed Rules, this proposal would remedy the present situation in which Transco finds itself applying parameters outside the contractual requirements.

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

Advantages:

1. Version 3 has been agreed by the Validation Rules Sub-Committee as incorporating a workable set of pressure and temperature correction factors.
2. Implementation of either Version 1 or Version 2 will be avoided.

Disadvantages:

Transco is not aware of any disadvantages associated with this proposal.

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

Eight representations were received from Users (Yorkshire Energy Limited, BP Gas Marketing Limited, Aquila Energy Trading Limited, British Gas Trading, Powergen, Scottish and Southern Energy, TXU Europe Energy Trading Limited and Alliance Gas Limited).

All eight representations broadly supported the implementation of the proposal, specifically in the context of its interim nature. Comments in support of the proposal stated that it "should fulfil the primary requirements of the validation process". Further support was offered in the belief that the proposal "offers a pragmatic way forward pending the further development of Network Code Validation Rules that are appropriate in the longer term".

Support was given by one User "..on the understanding that implementation of the proposal would not be used by Transco to justify a retrospective change of the validation rules..". Similarly another User stated that " While we support the nature of the change going forward, we do not see the need to alter code to reflect the actions that have taken place between March 96 and present".

Clarification was sought from one User on the impact of a recently published Ofgem "..consultation paper on energy measurement in connection with a new EU directive". The question as to whether this directive may require the Validation Rules to be revisited a year later was posed. The same User stated that "..no change to systems and business processes should in any way impact consumers" and that "..little or no mention has been made of the impact that erroneous reads have on consumers..".

Whilst supportive of the move to implement version 3, one User expressed "..disappointment at still not having received a letter.....regarding the resolution of the retrospective breach of contract". Concern was also raised by the same User as to the stated Transco view that it is the test which is at fault and not the reads themselves.

Transco's response

Transco agrees that the prospective element of this modification proposal should not be used to justify any retrospective change of the Validation Rules.

The interim nature of this proposal (to 30 June 2001) will give the opportunity for any new directives to be considered ahead of the agreement on any new Validation Rules in the second half of 2001. It is however, Transco's understanding that the EU Directive would be unlikely to be effective before 2002

The changes provided for in this Modification Proposal would legitimise the acceptance of valid reads. There has not been any impact on consumers, given that the reads in question are not erroneous. It is the rules validating (what are considered) accurate reads which are being amended to correctly allow for the acceptance of these valid reads.

The confirmation of individual shipper positions, while not linked directly to this proposal, is in hand and communication of the individual positions is anticipated in the near future.

The evidence provided to the Network Code Validation rules Sub-Committee evidenced that the test was indeed at fault and not the reads. The two-tier test incorporated into this proposal improves the existing valid read scenario.

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

Implementation is not required for legislative reasons.

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

No such methodology change is involved.

14. Programme of works required as a consequence of implementing the ModificationProposal

With the exception of relatively minor systems changes no works are required.

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

Transco proposes implementation to be effective immediately upon receipt of Ofgem direction.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation without delay.

17. 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.

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18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

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

19. Text

M1.5.3 Transitional Document Part II

Paragraph 8.10.1. delete and insert new paragraph 8.10.1 as follows

"8.10.1 M1.5.3 Until 30th June 2001 (but not thereafter) the Network Code Validation Rules shall be treated, for the purposes of securing that they may be modified only by way of a Code Modification, as forming part of the Code".

With effect from the implementation date, the Network Code Validation Rules applicable for Code purposes will be those comprised in the Network Code Validation Rules dated November 2000, Version 3 a copy of which is attached herewith.

Note : The only proposed change between Version 1 and Version 3, is the amended Table 3 (Corrector Tolerance Limits) on page 9 of the attached document.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Gas and Electricity Markets Authority Response:

> In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0439**, version **2.0** dated **18/12/2000**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **2.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") 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 Authority 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 paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.