

Draft Modification Report
Acceptance of Gemini Energy Implementation by Shippers
Modification Reference Number 0724

Version 1.0

This Draft 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

Gemini is only implemented if a two-thirds majority of NCC shipper representatives vote for it to go ahead. Two-thirds is used to ensure that reasonable proposals to implement cannot be held up due to individual shipper requirements although we would expect all Network Code Committee members would continue to act as representatives of the whole shipping community.

It is envisaged that the NCC would only vote on recommendation from the appropriate Gemini Shipper Working Group.

This proposal also proposes that the Gemini Shipper Working Group's terms of reference are updated to include development of acceptance criteria for agreeing implementation. Acceptance criteria would be expected to include items such as functionality, risk, performance etc. The Working Group's proposals would then need to be ratified by the UK Link committee. Implementation of Gemini could not occur less than six months after initial approval by the UK Link Committee of the acceptance criteria.

2. Transco's Opinion

Transco believes that this Modification Proposal does not facilitate the relevant objectives, specifically 9.1.b *"so far as is consistent with sub-paragraph (a), the efficient discharge of its obligations under this licence;"* and further, that the concerns expressed within it are being addressed through discussions within the Gemini Shipper Forum, Gemini Shipper Working Group, UK Link Committee and the Network Code Committee.

The Gemini Project:

As a prudent and efficient operator, Transco initiated the Gemini Project with the primary objective of replacing the ageing and increasingly maintenance dependent UK Link systems (RGTA and AT-Link) that support the commercial entry capacity and energy balancing arrangements; prescribed in the Network Code. The rationale and timescales for the replacement of these two systems is well documented and have been discussed with Users in various meetings including the UK Link Committee, Gemini Shipper Forum (GSF), Gemini Shipper Working Group (GSWG), NT&T Workstream and at the Operations & Trading Operational Forum Meetings.

The GSF was established in October 2002 whilst the GSWG was initiated by Transco in June 2004. In addition to representation from Transco, there is also representation from approximately fifteen to twenty User organisations at the GSF and approximately eight User organisations at the GSWG.

In order to understand and address those concerns raised by Users in relation to the technical implementation of Gemini energy balancing (eb), the Gemini Project Team has, through the GSF and GSWG, been actively engaging and consulting with those Users that have raised such concerns. Transco has acknowledged the concerns raised by Users in relation to their requirement to initiate (semi-) automated data processing on the new Gemini technical infrastructure i.e. hardware and software. In conjunction with the Users and 3rd party service providers, Transco has been assessing the technical options, e.g. bulk data upload/download processes, Application Programming Interfaces (APIs) and screen data access via Citrix and the Internet to extract data from Gemini. Transco has adopted a pragmatic approach to address this particular concern and has requested, and received the Users' requirements for APIs that are in addition to those originally specified. These additional APIs are now in the IT development stage and it is anticipated that they will be available for use by the Users as part of the implementation of Gemini eb.

As with all large scale, multi-user IT-related projects, it is not always feasible, economic nor efficient to meet all the expectations and desires of the various users. However, throughout the development of the Gemini Project, Transco has sought to;

- i) ensure that any new replacement system will continue to support those energy balancing and entry capacity obligations as prescribed in the Network Code.
- ii) replicate the existing functionality of AT-Link wherever possible whilst taking into consideration the technical differences that exist between the ageing (AT-Link) and advanced (Gemini) technologies.
- iii) in conjunction with Users, identify and develop appropriate enhancements. For example, the rationalisation of the nominations and renominations functionality (screens).

The Gemini eb Implementation Plan contains the key milestones and inter- dependencies; including the determination and agreement of an appropriate set of acceptance criteria between Users and Transco. Transco will continue to work in conjunction with, and balancing the technical requirements of all Users through the UK Link Committee, GSF and GSWG and provide the necessary technical support and assistance required to ensure the successful implementation of Gemini eb.

The Modification Proposal:

a. Implementation of Gemini eb based on an Network Code Committee majority vote on the recommendation from the GSWG

This element of the Modification Proposal would, if implemented, be a variation from the existing arrangements as defined in the Network Code whereby the UK Link Committee (Shipper representatives and Transco) approve the implementation plans of IT-related system changes on a consensual basis (Network Code Section U.8.4.4). The GSF and the GSWG are not defined nor recognised under the auspices of Network Code and as such, it might be considered more appropriate for the NCC to vote on a recommendation from the UK Link Committee.

Under the existing arrangements, should the UK Link Committee not reach a consensus, then the implementation plan could be referred to the NCC for a majority vote under Network Code Section U.8.4.5(c) and U8.4.6.

Transco would like to understand, and is seeking representations on, the Proposer's rationale for the proposed Network Code Committee (NCC) majority vote of 66% User representatives rather than the implied clear majority vote. By requiring an NCC voting majority of 66% of the User representatives, this Modification Proposal would stifle or delay any new development and may indeed prevent the Gemini Project from being implemented even where it had the majority support from the Industry and/or a recommendation to implement from the UK Link Committee. **Transco therefore seeks Users' views on how this aspect of the Modification Proposal should be interpreted.**

The current Network Code arrangements for IT systems development and implementation have been successfully operated through the UK Link Committee since its inception in 1996 and it is therefore unclear to Transco how this Modification Proposal would further the relevant objectives or improve the existing arrangements.

b. Redevelop the Terms of Reference of the GSF and the GSWG

The GSF and GSWG have not been established under the vires of Network Code and therefore, this element is outside the formal scope of the Network Code. Transco is however mindful that the function of, and co-operation within, these groups is essential to the successful implementation of Gemini energy balancing and would suggest that the Proposer and all attendees of these groups discuss and agree to any new Terms of Reference within the appropriate group.

c. Develop a defined acceptance criteria for agreeing Gemini eb implementation

The Modification Proposal does not indicate the basis or timescales on which the acceptance criteria might be set and agreed between Users and Transco. **Transco is therefore seeking Users' views on how this aspect of the Modification Proposal should be interpreted.**

At the GSWG held on 20th October 2004, Transco made a request to User representatives for views and an indication of their requirements for suitable acceptance criteria that might be used to help inform the decision in relation to the Gemini eb implementation. The User representatives suggested that Transco should undertake the initial determination of the acceptance criteria and then present the draft to the GSWG for their subsequent assessment.

Since this meeting, Transco has considered the views of the User representatives and is currently developing a set of acceptance criteria. It is anticipated that the Gemini Project Team will present the initial draft acceptance criteria to, and seek views as to whether it is appropriate or it requires further development from, User representatives at the GSWG during November 2004 and the GSF during December 2004.

d. Ratification of the Gemini system acceptance criteria by the UK Link Committee

In addition to the development and setting of the acceptance criteria, the Proposer has stated that the implementation of Gemini eb should not occur less than six months after the acceptance criteria has been "...ratified by the UK Link Committee". Transco wishes to understand the rationale for the proposed minimum *six* month lead time to the implementation of Gemini eb.

Transco has contacted the Proposer who has provided confirmation that the six month 'pre-implementation' period would be triggered by the date on which the definition of the acceptance criteria is agreed and ratified by the UK Link Committee.

It is the intention of the Gemini Project Team to attend the UK Link Committee in January 2005 to seek their approval for the Gemini eb implementation plan. This will include the key milestones relevant to the definition and agreement of the acceptance criteria within the planned implementation timescales.

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

The Proposer considers that the Modification Proposal would, if implemented;

"...further Transco's Condition 9 requirements by ensuring that Transco can continue to meet its licence requirements to operate its pipeline network in an efficient manner at the same time as it furthers efficient competition between shippers by allowing them efficient access to the network systems".

Transco believes that this Modification Proposal does not facilitate the relevant objectives, specifically 9.1.b *"so far as is consistent with sub-paragraph (a), the efficient discharge of its obligations under this licence;"*. The implication of the requirement for a 66% majority vote at the NCC rather than a consensual vote at the UK Link Committee is that it might place Transco in conflict with its existing obligations under Licence Condition 9.1a *"the efficient and economic operation of its pipe-line system"* and 9.1c *"... securing effective competition between relevant shippers and relevant suppliers."*

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

a) implications for the operation of the System:

Transco is not aware of any such implications.

b) development and capital cost and operating cost implications:

Should a delay occur to the proposed implementation date of the Gemini eb component then additional costs of approximately £0.7 million per month would arise due to ongoing support and maintenance obligations.

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 NTS SO costs would be shared with Users through the operation of the internal cost element of the SO incentive scheme arrangements.

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

Transco is not aware of any consequences that this Modification Proposal would have on price regulation.

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

There would be greater contractual risk as the Modification Proposal, as drafted, might lead to protracted delays to the proposed Gemini eb implementation date. Transco would be unable to implement Gemini eb in less than "*... six months after initial approval by the UK Link Committee of the acceptance criteria*".

During the proposed minimum six month Gemini *pre-implementation* period, Transco might be prevented from meeting its Licence and Network Code obligations should Ofgem direct any new eb or entry capacity-related Modification Proposal to be implemented (and effective within this period) that required associated IT system changes.

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

Any protracted delays to the proposed implementation timescale of Gemini eb would require Transco to support two parallel IT systems and thus incur additional costs. Further, during the six month pre-implementation window, and in order to change manage Gemini, it would be necessary for Transco to apply a 'code freeze' that would effectively suspend any further eb or entry capacity IT development until post implementation. Consequently, Ofgem would need to take into account any suspension of IT systems development when making decisions as to the implementation dates of any Modification Proposals.

7. The implications of implementing the Modification Proposal for Users

Transco would welcome representations from Users in this respect.

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

Transco would welcome representations in this respect.

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 requiring an NCC voting majority of 66% of the User representatives, this Modification Proposal would stifle or delay any new development and may indeed prevent the Gemini Project from being implemented even where it had the majority support from the Industry and UK Link Committee.

During the proposed minimum six month Gemini *pre-implementation* period, Transco might be prevented from meeting its Licence and Network Code obligations should Ofgem direct any new eb or entry capacity-related Modification Proposal to be implemented (and effective within this period) that required associated IT system changes.

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

Advantages:

As stated by the *Proposer*;

- *"... the Gemini system is only implemented if it meets criteria agreed by Transco and shippers.... and a majority of shipper representatives [of the NCC] also agree."*
- *"This proposal furthers Transco's Condition 9 requirements.....further efficient competition between shippers by allowing them efficient access to the network systems".*

Disadvantages:

- The requirement for an NCC voting majority of 66% of the User representatives provides an inappropriate and arbitrary barrier to the Gemini Project from being implemented even where it might have gained the majority support of the Industry.
- The Modification Proposal does not describe how the acceptance criteria would be set, the approval process nor what would occur in the event that Users and/or Transco cannot agree to the definition of the acceptance criteria.
- Protracted Gemini implementation delays would lead to increased costs and duplication of time/resources - Transco would be obliged to support essentially duplicate IT systems in parallel.
- During the proposed six month pre-implementation period;
 - i) Transco would be required to enforce a 'code freeze' i.e. suspend the development of any new Gemini IT system changes (including those related to entry Capacity) until the post-implementation of Gemini eb.
 - ii) This might restrict the implementation dates of any new energy balancing/entry capacity Modification Proposals that required associated IT-related changes to Gemini.

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

Transco is now seeking representations.

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

No such requirement exists in respect of this Modification Proposal.

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

Implementation of this Modification Proposal is not required to satisfy these requirements.

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco would continue to utilise the existing Gemini Shipper Forum and the Gemini Shipper Working Group and work in conjunction with the Users in the development and approval of the Gemini system acceptance criteria.

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

- Draft Modification Report issued - 11th November 2004
- Consultation period ends - 2nd December 2004
- Final Modification Report issued - 23rd December 2004
- Ofgem decision expected - January 2005
- The *Proposer's* Implementation Date - 1st December 2004

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend the implementation of this Modification Proposal.

17. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Richard Court
Commercial Frameworks Manager
NT & T

Date: