

Modification Report
Partial 'Volume' Interruption Service
Modification Reference Number 0657
Version 1.0

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

The current partial interruption service facilitates the reduction of gas demand at an interruptible supply point rather than full interruption. Partial interruption is currently achieved via the reduction of one or more 'tranches' on an hourly rate basis. This Proposal seeks to enhance current partial interruptions arrangements so that when loads can be permitted to offtake gas at rates higher than those available under the current partial interruption service, they should be allowed to do so. In such a scenario, the aggregate daily offtake would be limited to the daily offtake quantity implied by the uninterrupted 'tranches' subject to a supply point maximum hourly rate as specified in the interruption notice.

This additional flexibility (over and above the current partial interruptible service) will only be offered at Transco's discretion.

2. Transco's Opinion

In the Winter Operations report 2003/2004, NGT highlighted that in a severe winter there could be significant volumes of interruption required for supply-demand balancing purposes. This would be expected to have a significant impact on the supply of gas to consumers who have interruptible supply contracts. Transco believes that enhancement of interruption services, which introduce more flexible arrangements, may go some way to mitigate the potential impact of this volume of interruption for winter 2003/04.

Transco has the right to call for interruption at interruptible supply points to alleviate transportation constraints, for testing purposes and when the forecast national demand is greater than 85% of the forecast peak day demand. The prevailing interruptible arrangements are the same irrespective of the trigger for interruption. This Modification Proposal, if implemented, seeks to enhance partial interruption arrangements such that the offtake for relevant partially interruptible supply points may be restricted based on daily volume, as opposed to limiting the hourly quantity, when system flexibility allows.

The interruption arrangements will be modified such that a distinction is made between 'rate interruption' and 'volume interruption'. 'Rate interruption' would typically be triggered by anticipated system capacity constraints and 'volume interruption' by forecast demands in excess of 85% of the peak day demand. The operation of the proposed service will depend on Transco interruption procedures identifying capacity constraints and triggering the required interruption before any supply/demand issues are addressed. It is proposed that Transco will have discretion as to when the partial 'volume' interruption service may be utilised.

The intent of partial 'volume' interruption service is to offer the end consumer the opportunity to choose whether to maintain offtakes at up to their peak rate whilst reducing the off-peak rate in order to deliver the required interruption volume. The peak rate cannot be increased.

Implications on the Electricity System

The enhanced service will be available to all loads that elect for the potential interruption service. Transco considers that implementation of this Modification Proposal may better facilitate gas supplies to CCGTs that have interruptible supply contracts to satisfy peak electricity demand. The partial 'volume' interruption service limits the CCGT to a volume of gas that might allow generation over the peak electricity demand period at peak rate rather than restricting the generation capacity over the entire gas day.

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

The Proposal, if implemented, seeks to enhance prevailing partial interruption arrangements in a manner which may facilitate greater freedom to access system flexibility when such flexibility is available. This approach is consistent with the safe, efficient and economic operation of the gas pipeline system in a manner that will better facilitate competition between Users.

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

a) implications for the operation of the System:

Different offtake profiles may arise should Users exercise the choice of offtake flow rates facilitated, during a period of partial interruption, by this Proposal.

b) development and capital cost and operating cost implications:

Transco does not envisage that capital and operational costs, to support the implementation of the Proposal, will be significant.

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:

No additional cost anticipated.

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

Transco is unaware 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

Transco does not envisage any such consequences.

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

Transco anticipates that only minor changes to User systems may be required.

7. The implications of implementing the Modification Proposal for Users

Transco envisages that the proposed service provides flexibility to Users to more efficiently manage gas and alternative energy requirements within day.

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

Transco does not anticipate any such implications in respect of Terminal Operators, Storage Operator, Suppliers Producers and any other Non Network Code Party. However Transco believes that relevant End Consumers and Connected System Operators may benefit from the flexibility that the proposed service may provide. Partial 'volume' interruption arrangements may provide relevant End Users with the flexibility to offtake restricted gas by volume and not rate providing greater flexibility to manage interruption obligations in the context of managing their supply point and alternative energy requirements.

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

Transco is not aware of any such consequences.

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

Advantages:

- provides greater flexibility for relevant end users to efficiently manage interruption obligations. Offers the end consumers the opportunity to choose whether to maintain their peak rate whilst reducing the off-peak rate in order to deliver the required interruption volume.
- facilitates greater freedom to access system flexibility when such flexibility is available. May optimise offtake rates over the day during periods of partial site interruption where such offtake flow rate variation can be accommodated on the system.

Disadvantages:

- increased complexity in respect of the operation of interruption management.

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

Comments have been received from 10 respondents.

Scottish and Southern Energy	SSE
Scottish Power	SP
Shell Gas Direct	SGD
Major Energy Users Council	MEUC

EDF Energy	EDF
Association of Electricity Producers	AEP
British Gas Trading	BGT
RWE Innogy	RWEI
Corus UK Ltd	CUK
Statoil (UK) Ltd.	STUK

Five respondent (SGD, EDF, AEP, BGT, STUK) supported the Proposal.

Three respondents (SP, MEUC, RWEI) did not support the Proposal.

Two respondents (SSE, CUK) provided comments and did not express a position in respect of the prefer outcome of the Proposal.

Daily Balancing

MEUC note that, in principle, with a system which balances on a daily basis, a partial interruption which allows the consumer to vary their offtake during the day while still meeting the overall reduction would appear to be a sensible development. SP believe that the introduction of a distinction between rate interruption and volume interruption could represent a significant enhancement to current arrangements.

Response

Transco raised the proposal on the basis that interruption to meet solely a supply-demand balancing requirement within a daily balancing environment might be based on a daily volume reduction rather than a rate reduction when system flexibility allows.

Implications for Electricity System

SGD, SSE, EDF and SP support arrangements that work across the gas and electricity regimes and may provide benefits for gas fired power stations.

SSE believe the proposal could help the electricity market by securing gas supplies to CCGTs over the electricity peak demand hours, rather than restricting generation capacity over the entire gas day. AEP comment that, although it is not explicitly stated as the justification for the proposal, it is clear that Transco expects this proposal to provide a marginal improvement in electricity security of supply. AEP are concerned that the inter-dependence of the two markets is being addressed in this way rather than by the establishment of market orientated services that could be put in place to enhance security of supply in both markets. These services would however require full consideration of the commercial and operational impacts, cost targeting, revision to the incentives of NGC and Transco and appropriate provision of information to ensure the confidence of market participants. EDF note that this Modification should ensure that NGT operate both the gas and electricity systems more efficiently. RWEI believe that the modification proposal has been introduced to improve electricity security of supply and, therefore, it is difficult to see on what grounds it can be said to fulfil the obligations required of it under Transco's network code.

Response

Transco has raised the proposal to mitigate the impact on all end consumers of supply-demand interruption given that the possibility of Transco using interruption may increase. Transco recognises that the proposal might also benefit security of electricity supply. By releasing system flexibility when

such flexibility is available, Transco believes that the proposed service is consistent with the GT licence obligations.

Linepack Flexibility and Transco Discretion

EDF and SSE note additional flexibility is to be offered at Transco's discretion but are not clear what criteria will be applied. EDF would prefer that the implemented solution is transparent and the reason(s) for not allowing a partial volume interruption service made clear to the Shipper concerned. MEUC note Transco's concerns over depletion in line-pack because of within-day variation of beach gas delivery and conclude that a proposal which would allow a consumer to continue to use the gas early, with the intention of reducing later, must increase this concern. AEP is also surprised that Transco is offering system flexibility to shippers / customers when it usually tries to limit the flexibility it offers. SGD do not consider it appropriate that additional flexibility should only be offered at Transco's discretion. SGD believe that Transco should produce information about how much flexibility is available in its system and where. STUK seek assurances that the decision whether to call a Volume or a Rate interruption for individual users will be made based on a transparent, fair and effective methodology. STUK would not wish to see a system where consumers were effectively offered different interruption services based on a set of arbitrary criteria. Further, STUK would wish to see the criteria published prior to the introduction of this service.

Response

Transco recognise that the use of interruption can perform a dual role by simultaneously alleviating transportation constraints while impacting on the system supply-demand position. When an interruption requirement is established other than for transportation reasons, and hence where system flexibility allows, interruption can be called on a volume basis. Where system flexibility is limited, and hence the system is constrained, interruption will be called, at least in part, to alleviate such a transportation constraint and such interruption will be called on a rate basis. Transco will identify the reasons for any interruption requirement but recognise that where interruption performs a dual role it is the alleviation of transportation constraints that is the primary driver. Transco cannot produce precise information in advance about system flexibility as available system flexibility on any day will be influenced by supply and demand patterns and profiles, the prevailing levels and forecasts of localised and national linepack, stock and plant availability positions.

NExAs

SGD are surprised that this proposal, if used, would not result in renegotiation of NExAs as these often include details on the rates at which gas can be taken off the system.

Response

Transco has proposed this partial interruption service on the basis that it will be offered when system flexibility allows. NExAs deal with local requirements and Transco does not believe that the introduction of the proposed service would have any impact on those requirements and hence has not identified a requirement to renegotiate NExAs.

Impact on Consumer Groups

BGT commented that the service should be applied in a fair and equitable way across interruptible consumers. Transco should be able to demonstrate that their application of this discretion has been in a way, which does not favour or discriminate against any individual or group of customers. MEUC note

that a large proportion of interruptible volume is associated with power generation and if a considerable amount of this were to switch to partial interruption then the balance would transfer to I&C sites, increasing their likelihood of interruption. SGD note that while the proposal may have value for gas fired power stations, industrial users of Transco's system may also wish to 'profile' their offtakes and SGD presume that this flexibility will be offered on non-discriminatory terms. CUK comment that it is not clear where the additional gas or capacity to enable Transco to offer additional flexibility to users with partial interruptible contracts would come from and that the residual issue of discriminatory treatment between different interruptible users may need to be addressed via some form of additional rebate to those who suffer greater interruption as a result. RWEI would expect Transco to provide assurances that interruptible sites other than CCGTs will not face increased likelihood of interruption than would otherwise be the case.

Response

Transco has an obligation not to be unduly discriminatory. The service will be available to all Supply Points that qualify subject to there being no relevant locational constraint. Partial Interruptible status will be available to all end consumers providing they meet the requirements as laid out in Network Code.

Modification Development Process

AEP, SP and SGD have expressed support for reform of the exit regime and interruption arrangements, with the expectation that any new regime will offer more interruption options than are currently available, however, they have all expressed concern that this proposal has been developed separately from the current exit Workstream discussions. SGD are disappointed that reform of the interruption regime is being taken forward on a piecemeal approach with some areas being pushed forward for this winter and while other more fundamental reform is being taken forward in the exit capacity Workstream. SGD recommend that the Exit Reform Advisory Group (ERAG) is reconstituted to provide an overarching look at development of the interruptions regime.

Response

Transco has raised this proposal to mitigate the impact on end consumers of supply-demand interruption given that the possibility of Transco using interruption might increase. Transco therefore felt that it was inappropriate to develop this incremental proposal as part of the longer term exit review but recognises that the issues identified within this report should feature in the exit review debate.

Interruption for Supply-Demand Balancing

SSE is concerned that Transco has focused on the use of interruption to resolve supply-demand imbalances while AEP do not believe that Transco should be allowed to call interruption for such reasons. AEP and SSE believe that Transco should be using the OCM to buy gas in its role as residual system balancer and that to call interruption for such purposes effectively distorts the market for gas by suppressing incentives on shippers to balance through limiting the extent to which the price of gas traded on the OCM rises. SSE believe further consideration should be given to what, if any, enhancements can be made to the OCM to encourage a more efficient market response. SSE is concerned that Transco's use of interruption rights to resolve supply / demand imbalances could in fact distort the market and reduce its effectiveness.

Response

Transco has raised the Proposal to mitigate the impact on end consumers of supply-demand interruption given that the possibility of Transco using interruption might increase. Transco believes that the primary responsibility for supply-demand matching should rest with Users. Transco agrees that the OCM should, and will over the winter, be the primary residual balancing tool but recognises that Transco interruption under high demand conditions may be required as a back-stop. Transco will optimise its use of the OCM to address balancing issues over the winter and welcomes any incentive that might improve market effectiveness. Transco would welcome further discussion on the longer term role of interruption as a supply-demand balancing tool.

Incentive Arrangements

RWEI, SGD and SP consider that it would be appropriate for Transco to comment on the impact that this modification could be expected to have on NGC's incentives, given that this proposal is aimed at allowing generation over peak demand periods. AEP seek clarification as to whether Transco may change the way in which it calls interruption if this modification is approved i.e. calling more sites partially, rather than fewer sites fully, to improve electricity security of supply at peak demand hours.

Response

Transco cannot comment on the effect that the proposal might have on NGC's incentives as any impact would be indirect and would depend on enduser take-up and use of any greater flexibility made available. Transco may adjust the way it calls for interruption depending on the extent of use of the service and in the light of operational experience.

Profile Notification

AEP note the uncertainty that any profile submitted to Transco may not be acceptable and that processes / time-scales have not been suggested for the submission / approval of profiles. AEP also wonder if the intention of this proposal could not be achieved by Transco managing the timing of interruption and restoration notices through the day or at least Transco suggesting what kind of profile might be possible when it calls partial interruption tranches.

Response

Profile notification arrangements will be dealt with on a site by site basis. The acceptance of revised notifications will depend upon the partial interruption agreement, the NExA provisions and the extent of available flexibility in the location of the load where applicable. Transco considered approaches based on the concepts suggested by AEP before advocating this Proposal. Transco preferred this approach believing it affords the maximum choice to endconsumers in respect of timing of offtake given that different endconsumer groups might have different periods of preferred offtake during a day involving partial interruption.

Interruption Notification and Failure to Interrupt Charges

AEP are concerned that the legal drafting may not fully protect sites from failure to interrupt charges in the circumstance where a site is partially interrupted and takes its allowed 'volume' early in the day and is later called for full interruption. SGD assume that the telemetry currently available at potential sites is accurate enough to ensure that this proposal will be workable and would also welcome some detail as to how the failure-to-interrupt charges will work in practice. BGT commented that communication involved in partial interruption should be clear and unambiguous such that Shippers and end consumers alike could be certain that they were able to offtake gas at the notified quantities where this varies from

the established tranches and therefore not subsequently be subject to any incentive or penalty, which may have otherwise applied. SP are not convinced that the interruption process time-scales and Transco's discretion in offering the service will allow a consumer to make an informed decision and, therefore, any potential benefit to the system might not be realised.

Response

The interruption notification will include the basis for interruption and the time from which interruption applies. Failure to interrupt will be assessed by comparing the volume offtaken over the interruption period against the allowed volume. The allowed volume will be calculated from the sum of Tranche quantities, against which an interruption notice has not been served, multiplied by the interruption period. If a site is called for partial interruption within day then the volume of gas offtaken before the interruption time will not affect the interruption validation calculation. Telemetered data is required for the calculation and interruption status telemetry requirements are included within Network Code.

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

Transco does not believe that the implementation of this Proposal is required to facilitate compliance with safety or other legislation.

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

Transco is unaware of any such requirements.

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

Develop and implement procedural changes to partial interruption processes.
Develop and implement system changes.

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

Action	Due Date
Consultation close-out	19/11/03
FMR issued	21/11/03
Ofgem decision	28/11/03
Systems Development and Implementation	01/12/03

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends the implementation of this Modification Proposal.

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.

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.

19. Text

SECTION G: SUPPLY POINTS

Amend paragraph 6.10.4 to read as follows:

“Where Transco requires Interruption at the Supply Point:

(a) pursuant to paragraph 6.7.3(i) or in relation to an NSL:

(i) in any period . . .;

(ii) . . .; and

(iii) . . .;

(b) pursuant to paragraph 6.7.3(ii) or 6.7.3(iii) (other than in relation to an NSL):

(i) for the period on any Day for which Interruption is required (for the purposes of this paragraph 6.10.4(b) the “**relevant Day partial interruption period**”), and subject always to paragraph 5.3.1, the Registered User will be allowed to offtake a quantity of gas (and Sharing Registered Users will be allowed to offtake a quantity of gas in aggregate) measured in kWh, not exceeding the sum of the Tranche Quantities of the Tranches at the Supply Point in respect of which an Interruption Notice has not been served multiplied by the number of whole hours in the relevant Day partial interruption period on that Day;

(ii) for the purposes of paragraph 6.9.1(a), the requirement of paragraph 6.7.2(b) shall not be satisfied where the quantity referred to in paragraph (i) has been exceeded in the relevant Day partial interruption period;

(iii) the provisions of paragraph 6.9.2(a) shall apply; and

(iv) the provisions of paragraph 6.10.5 shall apply save that for the purposes of interpreting such paragraph the User shall be deemed to have offtaken a quantity of gas (and Sharing Registered Users shall be deemed to have offtaken a quantity of gas in aggregate) in each hour of the

relevant Day partial interruption period equal to the total quantity offtaken in such period divided by the number of whole hours in such period.

Amend paragraph 6.11.4 to read as follows:

“Where Transco requires Interruption at an Interruptible CSEP:

(a) pursuant to paragraph 6.7.3(i) or in relation to an NSL:

(i) in any period . . .;

(ii) . . .; and

(iii) . . .;

(b) pursuant to paragraph 6.7.3(ii) or 6.7.3(iii) (other than in relation to an NSL):

(i) for the period on any Day for which Interruption is required (for the purposes of this paragraph 6.11.4(b) the “**relevant Day partial interruption period**”), and subject always to paragraph 5.3.1, the CSEP User will be allowed to offtake a quantity of gas (and CSEP Users will be allowed to offtake a quantity of gas in aggregate) measured in kWh, not exceeding the sum of the Tranche Quantities of the Tranches at the Interruptible CSEP in respect of which an Interruption Notice has not been served multiplied by the number of whole hours in the relevant Day partial interruption period on that Day;

(ii) for the purposes of paragraph 6.9.1(a), the requirement of paragraph 6.7.2(b) shall not be satisfied where the quantity referred to in paragraph (i) has been exceeded in the relevant Day partial interruption period;

(iii) the provisions of paragraph 6.9.2(a) shall apply; and

(iv) the provisions of paragraph 6.11.5 shall apply save that for the purposes of interpreting such paragraph the CSEP User shall be deemed to have offtaken a quantity of gas (and CSEP Users shall be deemed to have offtaken a quantity of gas in aggregate) in each hour of the relevant Day partial interruption period equal to the total quantity offtaken in such period divided by the number of whole hours in such period.

Signed for and on behalf of Transco.

Signature:

Nigel Sisman
Development Manager, Gas Balancing
NT & T

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 **0657**, version **1.0** dated **21/11/2003**) 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 **1.0**.

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.