

URGENT Modification Report
Publication of indicative maintenance schedule
Modification Reference Number 0560
 Version 2.0

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because the MSEC auctions are due to be held on 5th August 2002 and the information that would be published if this Proposal was implemented would impact shippers bidding strategies.

Procedures Followed:

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

Issued to Ofgem for decision on urgency	28 June 2002
Proposal agreed as urgent	28 June 2002
Proposal issued for consultation	28 June 2002
Close out for representations	8 July 2002
Final report to Ofgem	10 July 2002
Ofgem decision expected	12 July 2002

1. The Modification Proposal

Transco should be obliged to publish each year an indicative annual maintenance programme at least one week ahead of the annual NTS entry capacity auctions. The indicative annual maintenance schedule should be based on the current April and October maintenance programme reports but should cover the period October to September for the forthcoming year. The report should set out the impact of any planned maintenance on entry capacity availability at all system entry points.

2. Transco's Opinion

Transco does not support implementation of this proposal. Transco believes that information provision should be subject to a wider debate about the range of information that should be furnished by all parties to best enable efficient operation of the market. For example, Transco believes that consideration should be given to information regarding maintenance work offshore and downstream of Transco's system, which can effect gas flows onto and off the pipeline system. The operation of the gas market may be more efficient if Users were required to publish details of planned maintenance among their upstream suppliers and downstream customers.

Transco believes that an intent of the incentive arrangements proposed by Ofgem is to encourage Transco to adopt a flexible approach to scheduling maintenance. That is, Transco is potentially rewarded for adjusting planned maintenance in the light of market signals from Users about when capacity is least valued. Responding to these incentives will necessarily diminish the value of indicative plans that might be circulated before any capacity auction since actual maintenance may differ significantly from early plans. Transco considers that in addition to being of diminished value publication could potentially be positively misleading for Users.

Implementation of this proposal would require Transco to publish annual information in [August] of the preceding gas year. Transco would not have a well developed maintenance plan at this time, indeed the information does not exist at present, and as a consequence uncertainties about the maintenance programme would be large. As previously indicated large uncertainties could potentially distort the capacity market by providing information that later changed substantially.

Transco is further concerned that it should not be required to publish commercially sensitive information regarding its future maintenance plans. The suggested timetable could require publication at the time when Transco is negotiating with potential contractors regarding the provision of maintenance services. This could result in Transco being commercially disadvantaged in its negotiations, resulting in turn in increased costs for Transco and all Users.

Transco also observes that Ofgem has proposed the Transco should be obliged to offer firm Entry Capacity up to published baseline quantities. Users that purchase firm Entry Capacity have a right to nominate gas flows up to the quantities of firm capacity that they have purchased. These quantities would not be affected by maintenance. Knowledge of actual physical capability is not, therefore required by Users when scheduling gas flows onto the transportation system and it is not clear why this should affect the value placed on capacity by Users. Transco believes that maintenance information is most likely to be used to gauge Transco's potential distress in the entry capacity buy back market. Transco does not consider that it is economic nor efficient for Transco to provide an advance signal about its potential capacity management needs.

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

Transco does not believe this proposal would further the relevant objectives, as it believes that the provision of maintenance information could be less efficient if it leads to increased capacity management and maintenance costs.

The proposer suggested that "this change would lead to more efficient pipeline operation and use and would also facilitate competition between shippers and suppliers".

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

The operation of the system may be affected if this Modification Proposal is implemented because Users may be better able to ascertain when and where the system could be constrained and this may be reflected in decision about gas input to the NTS. This in turn may lead to Transco changing the way the system is operated, for example by changing its maintenance plans.

b) development and capital cost and operating cost implications:

Implementation would increase Transco's operating costs since additional maintenance plans would need to be developed and published. Providing commercially sensitive information to potential maintenance providers may also increase the costs of maintaining the system.

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 anticipate that, subject to modification of its GT Licence any additional System Operator costs incurred as a result of implementing this Proposal would be shared with Users in line with the proposed incentive schemes.

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

There are no such implications

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 is a risk that as Transco would be obliged to publish information that will expose it to increased risk in contractual negotiations for maintenance in addition to increased risk of escalating capacity management costs.

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

There are no such implications.

7. The implications of implementing the Modification Proposal for Users

If the Proposal was implemented it would provide shippers with additional but potentially misleading maintenance and capacity information.

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

There are no 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

There is a risk that as Transco would be obliged to publish information before the maintenance plans are finalised substantial changes could be made to the information after the capacity has been purchased for that period but before the capacity is used.

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

Advantages:

- It provides more information to the market.

Disadvantages:

- It may lead to higher buy-back costs for Transco and shippers.
- The published information may be misleading as it will be published too far in advance for Transco to have an accurate view of the maintenance programme and capacity impacts.

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

Transco received a total of 12 representations for this Proposal:-

Powergen UK Plc (POW)
Entergy Koch Trading Europe Ltd (EKTL)
BP Gas Marketing Ltd (BP)
Chevron Texaco (CT)
SSE Energy Supply (SSE)
Shell Gas Direct (SGD)
AEP Energy Services Ltd (AEP)
Statoil (STA)
Agip UK Ltd (AGI)
TotalFinaElf Gas and Power Limited (TFE)
British Gas Trading (BGT)
London Electricity Group (LEG)

Nine respondents supported the proposal in the current form
One respondent gave qualified support.

Two respondents did not support the proposal.

Information Provision

Nine of the respondents stated that the publication of indicative maintenance schedule would provide better information about the market and allow shippers to better value NTS entry capacity. POW commented that “... better information about the market will help in assessing our operational requirements and allow us to efficiently value capacity ...”. CT raised concerns that “Failure to make this information available for the auction period will lead to inefficient bidder behaviour and increase costs.” EKTL believe that “Shippers will need as much information as possible given the increased risk of mispricing long term positions.” EKTL also felt that the Proposal improved “... the ability of shippers to monitor Transco’s actions in terms of system maintenance.”

SGD support the Proposal but state, “...this should not overly restrict Transco’s ability to make changes as circumstances dictate.” BGT support the principle of the proposal but expressed concern at “... how accurate any maintenance plans produced in July 2002 could possibly be for the following summer.” STA support the proposal but “... question whether there is a need for this proposal if the auctions only cover six months as proposed under modification 564.” BGT believe “... that auctions for annual capacity should be run in spring when Transco have up to date data on maintenance for the following summer (their main maintenance period).”

Two shippers (AGI and TFE) do not support the proposal. AGI believe that “Transco should take decisions regarding its maintenance planning in light of the signals it receives from the capacity auctions.” TFE support the general principle of information release but do not support this proposal. TFE “... believe that the community’s interests are better served by preserving a measure of anonymity and discretion as to how and when Transco deploys these tools in order to manage and schedule its maintenance obligations.”

Transco Response

Transco notes the assertion that publication of additional information on its provisional maintenance plans could help Users value capacity. However, Transco is not clear why such information would affect this value, which Transco believes should reflect User rather than Transco circumstances. The responses received fail to demonstrate how such information might be expected to lead to a change in the value placed on capacity by Users.

Transco notes that a number of respondents have suggested that in general information is beneficial to efficient operation of markets and believes that this principle should be adopted to a wider consideration of appropriate industry wide information release rather than considering specific issues piecemeal. Also Transco believes that respondents have failed to recognise the role of Transco as a market player. In this respect provision of maintenance information can disadvantage Transco when contracting for maintenance services and capacity management. In

both instances Transco is potentially placed in a position of distress that is not shared by other market players.

Transco also believes that one intent of the incentive arrangements proposed by Ofgem is to reward Transco for adopting a flexible approach to scheduling maintenance.

The relevance of a 'long range plan' will therefore reduce as Transco responds to incentives and market signals about the value of capacity, and the data contained in that plan will necessarily become less accurate. The clear danger for Users which seek to place a high value on that data quality is that they could be led to take inefficient actions in the capacity market. This proposal would require Transco to publish annual information in [August] of the preceding gas year, Transco would not have a well developed maintenance plan at this time, indeed the information does not presently exist, and as a consequence uncertainties about the maintenance programme would be large. Such uncertainties could potentially distort the capacity market by providing information that later changed substantially, and generate signals which reflect assumptions about Transco's maintenance plans such that Transco does not receive appropriate signals about the optimum time to schedule maintenance activities.

Timescales

Four shippers (SSE, BP, BUS and SGD) raised concerns around the timescales involved. SSE supports the Proposal but note that "...broadly speaking, the information about Transco's maintenance schedule is available to Users ..." and the issue is "... the timing of publication of the maintenance schedule." BP supported the Proposal but felt that "... the schedules should be published a greater period in advance of the auctions....". Both BGT and SGD felt that one weeks notice of the maintenance schedule was inappropriate and that two weeks would be required for shippers to build their bidding strategies.

Transco Response

Transco agrees with the observation that a six month maintenance plan is published which itself is subject to periodic refinement. Transco believes that, at most, this process should continue. If the proposal was implemented Transco would not have any preference as to whether the information was published either one or two weeks before the auctions commenced because it does not have the twelve month maintenance information at either time.

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

Implementation is not required to facilitate compliance with any such 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

Implementation is not required having regard to any proposed change in the methodology established under Standard Condition 4(5) of the statement furnished by Transco under Standard Condition 4(1) of the Licence.

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

There are no such works.

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

As Transco does not support implementation, no timetable is provided.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation.

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 not to modify the Network Code and Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Transco does not recommend implementation of this Modification Proposal and therefore no legal text is provided.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date: