

Draft Modification Report
Obligation on Transco to offer terms for enhanced gas quality services at exit
Modification Reference Number 0574

Version 2.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Proposer suggests that Transco should be obliged to offer terms to users at exit who request enhanced gas quality services at any NTS or LDZ exit point. Enhanced gas quality services would, for example, allow users to specify the pressure and composition of gas to be delivered.

A user would be entitled to request that Transco offers terms to provide enhanced gas quality services at an exit point. Transco would be obliged to offer terms within a defined time period after the request. In pricing the service, Transco would need to ensure compliance with relevant licence obligations. A user could then choose to agree to the offered terms or decline them and continue to receive gas under standard network code terms.

2. Transco's Opinion

Transco does not support implementation of the Modification Proposal. Transco is concerned that the Network Code Modification Process is an inappropriate route to consider the introduction of obligations with respect to gas quality, such as those outlined in the proposal, on Transco particularly when appropriate statutory provisions (contained in the Utilities Act 2000) already exist; believes there is very limited demand for enhanced gas quality services at exit and, as such, the provision of gas to a specification more stringent than specified with the Gas Safety (Management) Regulations (GSMR) would not be a service "ordinarily required" by Users; the Network Code already provides for Users to request differing service levels in respect of system pressures; and that decisions by Transco whether or not to offer terms for the provision of services beyond those it is obliged to provide should be subject to normal commercial considerations, as they would be for any other organisation.

Transco would also observe that gas enters its network at a number of System Entry Points. The quality of gas received at these System Entry Points determines the quality of gas within Transco's System, and there is a wide range in the characteristics of gas entering the system over which Transco has no control. The quality of gas at an Exit Point is dependent upon the collective quality of gas within Transco's System as provided by the Delivery Facility Operators (DFO).

In response to normal commercial incentives, Transco nonetheless provides some specific services of the nature of those set out in the Modification Proposal. Transco provides enhanced gas quality terms and enhanced pressure terms at the Bacton Interconnector, based on agreement between Interconnector UK and Transco. There is a specific demand to provide specific gas quality terms at the Bacton Interconnector to enable subsequent downstream transporters to conform with the gas quality requirements that apply to continental Europe. This promotes economic and efficient trade between the UK and other European gas markets.

Users can also obtain an enhanced pressure specification via section J2.2 of the Network Code, subject to network analysis. If the service could be offered, a requesting User would be required to fund any necessary system reinforcement and enter in to an Ancillary Agreement with Transco. Hence there is no need for additional provision in the Network Code for offering enhanced pressure services at exit.

Were there to be further demand for enhanced gas quality at Exit Points in the future, then it is likely that such services could only be provided by investment in additional gas processing equipment. This would be likely to be a contestable service which parties other than Transco could provide. Introducing a requirement on Transco to enter such a market would be inappropriate and could undermine the natural development of competition in this area.

By contrast, should there be circumstances where provision of a regulated service would be appropriate, suitable contractual arrangements would need to be developed. For example, an ancillary agreement would be required between Transco and the Registered User(s) of the exit point. In the event that the Registered User(s) of the exit point changed, it is envisaged that they would be required to accede to the ancillary agreement. In addition, once the Registered User(s) has(ve) committed to the service, it is likely that they would only be entitled to request a cessation of the service on the basis that they had paid to Transco any costs Transco had incurred and not yet recovered in providing the service. Transco believes that it could not readily respond to an obligation to provide terms until these and other detailed issues are resolved.

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

In the Proposer's view, implementation of the proposed modification would better facilitate the economic and efficient operation of the pipeline system by giving customers greater choice and flexibility over the quality of delivered gas, which would ensure the efficient operation and utilisation of the pipeline system. The Proposer also argues that by reducing the risk that gas quality issues lead to further interruptions of the interconnector, it would promote competition between shippers and suppliers.

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

There should be no implication to the operation of the System to meet a firm gas quality commitment as the only way to satisfactorily achieve this is by the installation of dedicated processing equipment. However, if Transco were to actively move gas to parts of the system to meet specific gas quality requirements at exit points then this would significantly affect the way Transco operates the System. Transco is therefore concerned that an obligation to offer terms for a gas quality service on other than a reasonable endeavours basis at most could compromise its ability to operate the system in an economic and efficient manner.

b) development and capital cost and operating cost implications:

The impact on Transco's development costs would depend on the nature of the enhanced gas quality request and the arrangements that would need to be put in place, particularly where the enhanced gas quality specification would be met by the installation of processing facilities.

Although Transco has no experience of processing gas, the capital costs associated with modifying gas composition would potentially be significant. Transco's operating costs would similarly increase by the employment of additional manpower to operate such facilities, with associated supporting systems and commodities to alter the gas composition. Transco would expect to recover these costs from the requesting Users.

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:

To ensure that those costs resulting from the provision of gas quality service do not lead to inappropriate cross-subsidies or a distortion in competition, Transco would expect to target additional costs to those Users requesting the service. Due to the integrated nature of the transportation system, and the consequences that introducing additional gas quality obligations could have on the operation of the system, it could be difficult to maintain a high level of cost reflectivity and accurately allocate all specific costs that would arise from the provision of each gas quality agreement, unless the gas quality requirement is met by providing dedicated plant at specific Exit Point, which could be provided through competitive markets.

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

It may be appropriate to consider the introduction of new cost-reflective charges, in accordance with Conditions 3 & 4 of Transco's GT Licence.

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 anticipates that the service level commitment that might be expected could increase the level of contractual risk to Transco.

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

Implementation could necessitate the installation of additional gas control and monitoring equipment, required for the processing of gas, within Transco's NGMS computer system for those exit points where gas quality agreements had been entered into.

7. The implications of implementing the Modification Proposal for Users

Implementation could necessitate the installation of additional gas control and monitoring equipment, required for the processing of gas, within Transco's NGMS computer system for those exit points where gas quality agreements had been entered into.

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

Implementation could lead to Transco seeking to tighten the gas quality tolerances that it applies at entry points in determining whether gas deliveries can be accepted into the system.

Consumers, Connected System Operators and Storage Operators would be provided the opportunity to request gas quality services at exit points.

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

If any gas quality service is provided through contestable provision of process plant at Exit Points, there should be no regulatory impact.

Changes to connections' Ancillary Agreements, such as NExAs, SCAs and Interconnection Agreements may be necessary.

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

Advantages :

Users would be given the opportunity to request gas quality services at exit points.
Non standard quality services could be tailored to individual needs

Disadvantages :

Possible tightening of entry specification requirements.
Possible reduction in system flexibility could increase costs elsewhere
Costs may be raised for all Users if cost targeting is inefficient

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

Representations are now sought as part of the Draft Modification Report

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

No such requirement has been identified

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

Not applicable

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

No program of works is required since implementation would not involve changes to UKLink system.

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

An implementation timetable has not been prepared.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not support implementation of the 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:

Tim Davis
Head of Regulation NT&T

Date: