

Modification Report
Changing the Basis for Triggering Supply Demand Interruption
Modification Reference Number 0705

Version 1.0

This 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

This Proposal seeks to amend the existing supply/demand interruption rights set out in Network Code Section G6.7.3(c), by replacing the reference to Forecast Total System Demand with an ability to initiate such interruption where, on any day, Transco determines that there is an Operational Balancing Requirement which cannot be satisfied by the acceptance of a Market Balancing Action.

2. Transco's Opinion

Shell Gas Direct (SGD) raised Network Code Modification Proposal 0699 on 19th May 2004, entitled "Amendment to Transco's interruption rights for supply/demand purposes", which seeks to change Transco's interruption rights from April 2005. SGD note that by removing Transco's right to interrupt at lower demand levels, Transco will need to go to the market through the OCM if it believes this is necessary to ensure supply and demand balancing at the system level. By relying on the market, Transco will be properly incentivised to minimise its costs and price signals will be sent to Shippers and thence to consumers about the value of their flexibility. The Proposal was sent to the Relevant Workstream for further development and during this development process Modification Proposal (0705) was developed. Transco has brought forward Modification Proposal 0705 as an alternative to 0699 as it directly addresses the intent of Proposal 0699 by ensuring that Transco would exhaust the market of suitable trades before resorting to S&D Interruption whilst at the same time ensuring that such Interruption remained available to Transco before entering a Network Code defined Gas Supply Emergency (GSE) i.e it also introduced a "backstop", pre emergency, interruption mechanism.

In its preliminary Winter Outlook Report for winter 2004/5 published on 17th May 2004, Transco identified a forecast tightening of the supply and demand position for the coming winter due in part to a forecast decline in UK Continental Shelf (UKCS) gas supplies. The report identified that the market would need to deliver a quantity of demand side response equal to the total daily demand of the interruptible market sector if the security of supply in 2004/05 is to be maintained during severe (i.e. 1 in 50) weather conditions. As part of the 'Transporting Britain's Energy' consultation process Transco has subsequently stated that a response from the "firm" Gas Supply market sector would also be required.

Transco considers that given the outlook for the forth-coming winter and, without changing the existing trigger, there is a risk of insufficient market response to

protect firm supplies during a severe winter at demand levels below 85%. Given the existing trigger, in this situation Transco would not have the right to initiate supply and demand management Interruption and would therefore potentially be forced to declare a Gas Supply Emergency in order to gain access to emergency interruption rights necessary to maintain supplies to firm consumers. Interruption called under such circumstances would not attract payment under Transco's Exit Capacity Investment Incentive (ECII), thus preventing a valuation of or compensation for, the interruption right and would also not feed into cash-out calculations. Emergency interruption would also generally be subject to a reduced notice period, thus providing the Supplier, Shipper and end consumer with less time to manage the consequences of such interruption requirement.

As a result of the Workstream discussions on Modification Proposal 0699, Transco considers that its existing "supply/demand interruption rights" should be amended for the forthcoming winter in order to maximise the efficient and economic use of available markets prior to resorting to a revised "back-stop" pre emergency position, which would enable Transco-initiated supply/demand Interruption. The term used to describe this "back-stop" position during Relevant Workstream discussions was that it would represent a "Stage Zero" emergency scenario after the market had been exhausted of operationally suitable trades but before declaring a Gas Supply Emergency and hence avoid some of the consequences of such an event.

Some Network Code parties have suggested that Transco's S&D Interruption rights might be removed under normal operation leaving S&D Interruption as an option only under a Gas Supply Emergency. The combined effect of Modification Proposal 0696, which proposes the removal of the payment for a day of S&D Interruption, and Modification Proposal 0705 which restricts Transco's S&D Interruption rights to post market failure, is to mirror Interruption under a Gas Supply Emergency whilst at the same time retaining the obligation on Transco to provide the full notice periods associated with normal Interruption arrangements. It should also be noted that the proposed Partial Volume Interruption arrangements under Modification Proposal 0702 would not apply under a Gas Supply Emergency whereas it would to Interruption initiated under this Proposal.

Transco notes the views expressed by Users in response to the draft Modification Proposal and draft legal text released for comment following the July Workstream meeting and at the Modification Panel on 15th July about the use of the term "operationally suitable" to determine when to instigate supply and demand Interruption. In response Transco would re-iterate its previous statements that it considers that the most efficient and economic means of addressing its residual balancing role is via the On-the-Day Commodity Market first and foremost. In this regard Market Offers will be taken by Transco in accordance with the proposed principles set out in the revised System Management Principles Statement (SMP). For example, in determining whether or not any action would be operationally suitable Transco would consider:

- The ability of the action to be delivered and have a material effect on the system balance position within a suitable time period; and
- The ability to measure such delivery and effect.

Transco recognises that this commitment to use the market first and foremost before resorting to supply and demand Interruption, may potentially result in Transco taking more residual balancing actions on the OCM if Users choose not to address their own portfolio management requirements and instead face imbalance exposure to cash-out. This could result in greater User balancing incentives in the short term, incentivising Users, who have the primary balancing role, to make arrangements in the longer term to balance their positions in order to reduce this imbalance exposure. Also in the short term this may increase Transco's exposure under the current Residual Gas Balancing Incentive.

In the longer term Transco considers that this Proposal will facilitate the generation of efficient market signals for demand side participation through increased incentives to post offers on the OCM.

Since this Proposal was raised, clarification from the HSE in regard to compliance with GSMR and the outcome of the Ofgem Top-up consultation has led to a revised Safety Case submission and an Urgent Network Code Proposal (0710) to remove Top-up arrangements. Transco recognises that should Modification Proposal 0710 be implemented then one or more of the benefits of this Proposal would no longer be relevant. However, if the Top-up arrangements were removed, a Transco requirement to Interrupt for Supply & Demand Management Purposes would still be identified if forecast daily demand was in excess of available supplies and no appropriate market offers were available. In this respect the Proposal is consistent with 0710.

It should be noted that this Proposal, if implemented, would constitute a material change to Transco's Safety Case. As such, implementation must be conditional on the acceptance of a revised Safety Case by the HSE.

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

In accordance with the GT Licence standard condition 9 paragraph 1. (a), this Proposal seeks to better facilitate the economic and efficient operation of the pipeline system by encouraging the efficient and economic use of the market, whilst retaining the "backstop" pre emergency ability to access supply and demand Interruption before entering a Gas Supply Emergency.

In accordance with the GT Licence standard condition 9 paragraph 1. (c), this Proposal seeks to further secure effective competition between relevant shippers and relevant suppliers by further encouraging demand management where possible, through the market.

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

a) implications for the operation of the System:

As System Operator this Proposal enables Transco to increase confidence that it can secure a timely physical demand reduction response, should it be required, to avoid an emergency developing given the degree of change in the gas supply and

balancing regimes since the initial introduction of the “85%” rule set out in Network Code Section G 6.7.3(c).

b) development and capital cost and operating cost implications:

Transco does not envisage additional capital or operational costs as a result of this Proposal.

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 is not proposing to recover any development or capital costs arising from the implementation of this Proposal.

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

Due to the potential for additional residual balancing actions being taken on the OCM this Proposal may increase Transco’s costs under the residual gas balancing incentive.

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 does not envisage any implications on existing systems by changing the Interruption trigger, though its operational procedures will need to be amended.

7. The implications of implementing the Modification Proposal for Users

Transco recognises that the implementation of this Modification Proposal may promote discussions between User and end consumers regarding the nature of their gas supply contracts for winter 2004/05.

The Proposal will provide a greater opportunity for Users to complete their primary balancing role prior to instigation of supply and demand Interruption by the residual system balancer.

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

Transco recognises that the implementation of this Modification Proposal may promote discussions between User and end consumers regarding the nature of their gas supply contracts for winter 2004/05.

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

- This Proposal reinforces Transco's commitment to use the market first and foremost, before using supply and demand Interruption, in order to maximise the opportunity for the market to value interruption for supply and demand balancing purposes rather than resorting to the current ECII value which has no relevance to the cost of securing sufficient supplies to meet contracted demand,
- It may encourage greater demand side participation in the market,
- It increases confidence that Transco can secure a timely physical response should it be required to avoid an emergency developing
- Would allow Transco to take greater account of LDZ interruptible load in its assessment of the Stored Gas Requirement for the coming Winter.

Disadvantages

- Due to the potential for additional residual balancing actions being taken on the OCM this Proposal may result in greater balancing incentives through the increased potential effect of these residual balancing actions on cash out prices in the short term. This may result in higher Balancing Neutrality charges for some Users should they choose to leave such interruption to the residual balancer.

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

Transco received 10 representations to the Proposal from the following:

| | | |
|--------------------------------------|-----|----------|
| RWE Npower Plc | RWE | Against |
| Shell Gas Direct | SGD | Against |
| Scottish and Southern Energy Ltd | SSE | Comments |
| EDF Energy plc | EDF | Against |
| Association of Electricity Producers | AEP | Against |
| BOC Gases | BOC | Against |
| Statoil (UK) Ltd | STA | Against |
| Total Gas & Power Ltd | TGP | Against |
| Centrica Storage Limited | CSL | Comment |
| British Gas Trading | BGT | Against |

No respondents fully supported the Proposal

One respondent offered qualified support for the Proposal (SSE)

One respondent offered comments only (CSL)

Seven respondents did not support the Proposal (RWE, SGD, EDF, AEP, BOC, STA, TGP, BGT)

Maximising Use of the Market

In principle SSE believes "that as far as possible supply/demand balancing ought to be facilitated by a liquid and transparent market. In the event that Transco is required to intervene, as residual balancer, its actions should be market based." EDF Energy agrees "that the balancing of supply and demand should be met through market based solutions whereby Transco will seek to maximise the efficient and economic opportunities presented to it on the OCM." The AEP considers that "the balance of supply and demand should be addressed via market based solutions, and that the existence of top-up and Transco's ability to call interruption for supply / demand could limit the incentives on shippers to source gas to meet their customers' demand and that actions to preserve monitor levels could create market distortions." The AEP also note that it may be appropriate "to consider removing Transco's rights to call interruption for supply / demand reasons altogether."

Transco response

Transco agrees that the existence of Transco's ability to call Interruption for supply / demand could limit the incentives on Users to source gas to meet their customers' demand. It is partly for this reason that this Modification Proposal was raised as it ensures the maximum efficient use of the market prior to any intervention by Transco in the interruption market. As such this Proposal should be viewed as Transco only applying its ability to call for S&D Interruption as a last resort prior to calling a GSE.

Transco Only Interruption Contracts

In relation to Transco stating that Top-up monitor levels could be reduced if this Proposal was implemented, SSE consider it unlikely that Users assume that storage is used to support LDZ interruptibles and query why Transco does.

Transco response

Transco raised Modification Proposals 0696 & 0705 in light of the increasing prevalence of 'Transco Only' interruption contracts. Such contracts effectively sterilise the interruption tool available to the User in completing its own supply and demand portfolio balancing demand management and passes this responsibility onto Transco. This is highlighted both by the response from BOC which notes that it has "Transco only interruption agreements" and by responses at the NT&T Workstream meeting on 12 February 2004, where a number of Users present confirmed the existence and prevalence of such contracts. If Users have little or no commercial interruption rights then it can be expected that LDZ interruptibles will be supported by storage gas up to demand levels at which Transco has the right to call for them to interrupt due to either lack of system capacity or via the existing 85% rule and hence would need to be taken into account when calculating the prevailing Stored Gas Requirement. Until demand levels are greater than system capability it should be noted that such "Transco only"

interruption supply contracts prevent the User from placing the gas on the OCM thus limiting the demand response of the market.

Dynamic Triggers

EDF support "dynamic triggers as opposed to static ones." BGT note that the operation of the system is naturally dynamic and the setting of a fixed trigger point cannot accommodate the required adaptability to the actual requirements of the system at a specific time under specific conditions. BGT are broadly supportive of some process which effectively meets the needs of system management under specific conditions.

BOC commented that the present criteria of "Forecast Total System exceeding 85% of System 1-in-20 peak day demand seems to be more predictable and auditable than a Transco determination about whether it can manage Operational Balancing Requirements by taking Market Balancing Actions." BGT recognise the difficulties with the current trigger being set at 85% of Peak day Demand, and have some sympathies that this arbitrary number will not be appropriate in all circumstances.

EON believe that the "existing arrangements for Transco supply/demand balancing interruption, alongside the amendments to the System Management Principles Statement (SMPS) would give Users greater confidence that Transco is committed to relying on the market to respond first and gives a more clear indication when Transco would have to interrupt, whereas this proposal reduces the current transparency by removing certainty as to when Transco can interrupt for supply/demand balancing reasons."

Transco's response

Transco believe that the revised trigger will give greater clarity in regard to when Interruption will be required because the revised trigger specifies the exact circumstances when Interruption will be called. Transco also considers that this Proposal replaces more arbitrary number (85%) with a market based dynamic trigger

Although the present 85% trigger provides some certainty that Transco will not Interrupt for S&D reasons below this level it should be noted that since the introduction of Network Code, Transco has not invoked such Interruption. The purpose of this Proposal was not to provide greater predictability but rather to ensure that the Interruption mechanisms in Network Code continue to keep pace with other industry changes. This Proposal seeks to remove Transco initiated S&D interruption where ever the market provides a solution. Transco considers that such a Proposal should be supported regardless of its effect on the predictability of Transco's actions.

Impact of Other Developments

Many respondents noted that there are other Proposals being developed that are impacted by, or impact on, this Proposal. It is suggested that this Proposal

be considered in conjunction with other relevant Proposals and consultation documents, in particular Modification Proposal 0710 and Top-up Review Conclusion document published by Ofgem and the proposed revisions to the and System Management Principles Statement (SMPS).

Transco response

There are a number of Modification Proposals that have been raised in relation to Top-up and S&D Interruption but Transco believes that all Modification Proposals are independent and should be considered on their own merits and on whether or not they "further" the relevant objectives. The revisions to the SMPS have been expressly proposed only in the event that Modification Proposals 0696 and/or 0705 are implemented and therefore Transco considers that these changes should be implemented, if both Modification Proposals are rejected.

Transco recognises that should Modification Proposal 0710 be implemented then one or more of the benefits of this Proposal would no longer be relevant, however, if the Top-up arrangements were removed, a Transco requirement to Interrupt for Supply & Demand Management Purposes would still be identified if forecast daily demand was in excess of available supplies and no appropriate market offers were available. In this respect the Proposal is consistent with 0710.

Principle Drivers for Changing the Interruptible Trigger

RWE have noted that "the principle driver for the Modification Proposal was to reduce the Top-up monitors and therefore costs for the forthcoming winter, as LDZ Interruptible Supply Points would no longer need to be supported by Top-up." EON note that the Proposal "is not consistent with proposed changes under Transco modification proposal 710: Removal of top-up arrangements, where greater reliance is to be placed on the market to provide supply/demand balancing solutions."

Transco response

It is Transco's understanding that the relative benefits of Modification Proposals should be considered against existing arrangements. In relation to Modification Proposal 0710 or the revised Safety Case it cannot be assumed what the outcome will be. Against the existing code rules, while the impact on Stored Gas Requirement is a benefit of the Proposal, the primary benefit of the Proposal is to ensure that Transco only uses S&D Interruption as a "backstop" last resort prior to entering a GSE having previously made full use of suitable Market Balancing Actions. Transco considers that this Proposal will increase the incentives on Users to source gas to meet their customers' demand and contract for commercial interruption and as such, it furthers the relevant objectives without further reference to other Modification Proposals.

Increase in the frequency of Interruption/45 days Interruption per Supply Point

BOC expressed concerns that it was unclear as to whether the principle to only interrupt for no more than 45 days per interruptible Supply Point would remain. STUK were concerned that the Modification Proposal could increase the frequency in which Interruption could be called.

Transco response

The Proposal does not affect the Interruption allowance, 45 days for Shipper Nominated Interruptible (SNI) Supply Points, of any Interruptible Supply Points. Transco considers that the Proposal gives Transco less discretion to Interrupt when the Forecast Total System demand exceeds 85% of System 1-in-20 peak day demand, when interruption is most likely, by obliging Transco to use the OCM first and hence the Proposal should further reduce the frequency of Transco initiated S&D management Interruption.

Supply Side Failures

Several respondents raised concerns that, with the removal of the 85% trigger, Transco could call supply demand Interruption to overcome difficulties that arise as a result of supply side failures. RWE stated that this "completely changes the concept of what this category of interruption is required for from both shippers and customer's perspective."

Transco response

Transco can already call Interruption to overcome a supply side failure when demand is forecast to be in excess of 85% of peak day demand. Transco can also call Interruption to overcome a supply side failure when demand is less than 85% of peak day demand provided that the impact on system pressures has the potential to impact the System's capability to flow gas and hence resulted in a Transportation Constraint. This proposal would reduce Transco discretion in regard to S&D management Interruption and retain the existing arrangement in regard to interruption requirements to resolve Transportation Constraints.

Operationally Suitable Market Offers

STUK and SGD expressed concerns that Transco would have more discretion in determining what is "operationally suitable" to instigate supply demand management Interruption and as a result create more uncertainty within the process. TGP also stated that "perhaps Transco would have inappropriate levels of discretion with respect to calling supply demand management interruption." TGP believes "the effect of this will be to undermine market confidence and damage expectations that cash out prices will be allowed to rise to a level that enables them to economically justify projects that stimulate the provision of both supply and demand side services consistent with meeting peak and off peak imbalances." EDF Energy believes that "the Network Code legal drafting does not provide the appropriate governance for the supply/demand interruption trigger."

Transco response

The term "operationally suitable" has been clarified in the SMPS consultation which accompanied this Proposal. Clearly an offer that cannot be physically delivered, or seen to be delivered, within the balancing period is not operationally suitable and hence a Proposal based on exhausting the market of all available market offers regardless of type would not in Transco's opinion have furthered the relevant objective to facilitate the economic and efficient operation of the pipeline system by encouraging the efficient and economic use of the market.

In addition, as required by its Licence, Transco prepares an annual report for Ofgem on its compliance with the SMPS. Transco's actions are also audited by independent auditors and their report on Transco's compliance with the SMPS is also sent to Ofgem. Transco believes that this reporting and audit process adds weight to the above assurance that the definition of "operationally suitable" is sufficiently robust.

"Insufficient Offers"

CSL expressed concerns regarding the draft Legal Text which accompanied this Proposal. CSL opposes Transco having such a flexible right in the case where there are relevant offers available but these are, or may be deemed to be, "insufficient". CSL considers and recommends that the "Modification Proposal should confer a clearer obligation in this case." CSL believe that "before resorting to Interruption not covered by a market offer Transco should be required first to accept all offers which would, or would be likely to, assist in satisfying the Requirement, and further that when Transco initiate Interruption not covered by a market offer and any relevant market offer exists at that time that is not accepted then Transco should provide evidence why the offer was not considered likely to avoid or mitigate the amount of interruption carried out."

Transco response

The intent of this Proposal is that Transco would take into account all operationally suitable market offers before quantifying the remaining volume of Interruption that might be required. Transco appreciates that this may not be clear from the original wording of the Legal Text and hence proposes to remove the words "or insufficient".

Providing a demand-side market response

RWE noted the challenge faced in order to place demand side bids on the OCM for multiple Supply Points on a regular basis. RWE state that it is important that the System Management Principles reinforce Transco's obligation to take up demand side OCM locational market offers. It is BOC's view that "to implement such a change from 1 October this year seems unreasonable as customers, faced with the risk of increased interruptions, may not have time to change any contractual arrangements from interruptible to firm supply should they wish to."

Transco response

The logistics of placing demand side offers was subject to debate at the NT&T Workstream during the development of this Proposal. Firstly, the intent of the Proposal is to further encourage Users to manage their own portfolio and not to leave such balancing requirements to the residual balancer. Secondly, if incentives to provide such bids were sufficient then Transco believes these bids would be made available.

Interruption is a transportation constraint management tool only

SSE note that it has "previously expressed the view that interruption is a transportation constraint management tool and that Transco should not be able to call it as a 'free tool' for residual supply/demand balancing purposes."

Transco response

Transco agrees that Interruption should be solely a capacity management tool under normal operating conditions but recognises that Supply & Demand management Interruption will always be required as an option either under, or immediately prior to entering into, Emergency conditions. This Proposal was raised after discussions which included an alternative proposal to remove Transco S&D Interruption rights completely. This alternative option was discounted as, it was Transco's view that such a Proposal would be viewed as a material change to Transco's Safety Case and that such a revision was likely to be rejected by the HSE. The recent developments in regard to Top-up, and particularly the HSE clarification in regard to the GSMR requirements of the Safety Case, indicate that the removal of S&D Interruption from normal operation, whilst retaining the right to interrupt to avoid a Gas Supply Emergency, might be regarded more favourably. This Modification Proposal along with 0696 generate a "Stage Zero" pre Gas Supply Emergency scenario for S&D Interruption which lies between the current regime and the full removal of Transco's S&D interruption rights. It maximises the use of the market as requested in 0699 whilst at the same time retaining the "backstop" pre Gas Supply Emergency ability to access such Interruption to avoid entering a GSE. Transco considers that the only difference between the combined effect of this Proposal along with 0696 and the full removal of S&D Interruption from normal operation is that Users, under a 0705 regime, would continue to receive the benefit of the prevailing interruption notice periods. Under a regime where Transco's interruption rights were removed from normal operation, Transco S&D Interruption might only be called under a Gas Supply Emergency during which Transco could not guarantee to provide the same notice periods.

Transco Discretion

If Modification Proposal 0710, which places greater reliance on the market responding to provide a supply / demand balance, is approved then AEP did not consider it would be consistent to implement Modification Proposal 0705 which would give Transco greater discretion as to when it may call Interruption for supply demand reasons.

EON were concerned that "the proposal gives Transco free reign to interrupt at their discretion." EON believed that "allowing Transco complete discretion for supply and demand interruption would reduce transparency and give Transco greater opportunity to interfere in the energy market."

Transco response

Under the prevailing arrangements Transco has full discretion in regard to calling for Interruption once the 85% trigger has been reached. Transco considers that this Proposal gives it less discretion to Interrupt above the 85% threshold, when Interruption is most likely, by requiring Transco to use the OCM first and hence the Proposal should reduce the frequency of such Interruption. Below 85% the Proposal provides the opportunity for Transco to use S&D Interruption only to avoid entering a GSE.

Transco recognises that should Modification Proposal 0710 be implemented then one or more of the benefits of this Proposal would no longer be relevant, however, if the Top-up arrangements were removed, a Transco requirement to Interrupt for Supply & Demand Management Purposes would still be identified if forecast daily demand was in excess of available supplies and no appropriate market offers were available. In this respect the Proposal is consistent with 0710.

Availability of Information to Market Participants

SSE considers that "in order for the market to provide the appropriate response when supply/demand balance is expected to be tight, it is imperative that there is sufficient information available to market participants. SSE would like to see further information on how Transco intends facilitating the timely provision of such information as the SMPS refers to existing shipper notification facilities."

Transco response

Transco will continue to have the ability to indicate to the market a requirement to take certain balancing actions if appropriate offers are not available, as defined by Network Code Section D 2.4.4, via the Active Notification System (ANS). Transco also provides a likelihood to interrupt service, via the Internet based Transco Information Exchange, which would give an indication of the requirement to take demand side actions should the interruption likelihood be high.

Revised System Management Principles Statement (SMPS)

A number of respondents noted their support for the revised SMPS while responding to this Modification Proposal. AEP noted that it did not understand why the proposed revisions to the SMPS are linked to the approval of Modification Proposal 0696 and / or 0705. The AEP do consider that whilst Transco retains S&D Interruption rights the SMPS should be modified to provide clarity to the market that it will take operationally suitable OCM offers before initiating Interruption for supply / demand reasons. EON do not feel that the "implementation or otherwise of this

proposal ought to be contingent on the changes being made to the SMPS as the principle remains the same, that for Transco to maintain its role as residual balancer, conditions need to be in place to give assurances that Transco will maximise the opportunities presented to it on the OCM before interrupting for supply/demand balancing purposes."

Transco response

The revisions to the SMPS have been expressly proposed to facilitate the introduction of Modification Proposals 0696 & 0705. The changes proposed are therefore only relevant in the event that Modification Proposals 0696 or 0705 are implemented.

Transco stated the following in its report to Ofgem concerning the SMPS consultation: "During the development of Modification Proposals 0696 & 0705, Transco clarified how it would manage the use of supply/demand management interruption and the OCM if either of these Modification Proposals were approved. The consultation on the proposed changes to the SMP Statement was initiated in order to formalise these assurances should one or both Proposals be approved. If these Modification Proposals are rejected the Network Code Interruption regime will remain as it was at the introduction of the SMP Statement, and Transco would not therefore consider that the SMP Statement changes to be necessary or warranted."

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

The Proposal would require a revision to the Safety Case. Such revision will be submitted to the HSE following Ofgem's Direction to implement this 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

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 the Interruption processes.

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

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|--------------------------------------|---|---------------------|
| Draft Modification Report circulated | - | 05 August 2004 |
| Consultation Period Ends | - | 26 August 2004 |
| Final Modification Report Issued | - | 16 September 2004 |
| Ofgem decision expected | - | Late September 2004 |
| Revised Safety Case Submitted | - | Late September 2004 |
| Network Code implementation | - | TBC |

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends the implementation of this Proposal subject to acceptance of a revised Safety Case by the HSE.

It is noted that if Modification Proposal 0710 were to be approved, the benefits afforded by implementation of Modification Proposal 0705 would be reduced.

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

Draft Legal Text

Delete G6.7.3 (c)...

“on any Day in respect of which, at any time, Forecast Total System Demand exceeds 85% of System 1-in-20 peak day demand.”

... and replace with:

“ on any Day for the purposes of Operational Balancing to the extent that Transco determines at any time on the Day that there is an Operational Balancing Requirement which cannot be satisfied by the taking of any Market Balancing Action (because there are no offers available to Transco which are operationally suitable).”

Signed for and on behalf of Transco.

Signature:

Richard Court
Manager Commercial Frameworks
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 **0705**, version **1.0** dated **16/09/2004**) 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 appropriateprovided 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.