

Modification Report
Interruption Transfer Service
Modification Reference Number 0658
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 Proposal stated:

"Under prevailing interruption arrangements where Transco has nominated interruption of an interruptible supply point a Shipper may elect an alternative supply point, within their portfolio, to fulfil the interruption obligation or to transfer interruption to a designated 'buddy' site. This Proposal seeks to extend the prevailing interruption arrangements to facilitate greater freedom for shipper-to-shipper transfer of interruption obligations.

Processes for the proposed service will broadly operate such that, in the event that interruption is required Transco may issue an Interruption Notification in respect of interruptible supply points selected by Transco. The Interruption Notification provides a list of Transco selected supply points and a list of alternate supply points and the volume required to be interrupted.

In response to the Interruption Notification the Primary Shipper must notify Transco of the supply points and volumes that are to be interrupted, or of its intention to fulfil its interruption obligation by transferring part or all its interruption requirement to one or more Alternative Shippers. Such a notification will include the volume of interruption to be transferred.

By notification to Transco any Alternate Shipper must confirm the supply points, and volumes, that are to be interrupted in response to the transfer of interruption from the Primary Shipper.

Transco reserves the right not to accept an Alternate Interruption Notification if the Shipper name or interruption volumes are not consistent with the Confirmation Notification received from the Primary Shipper. In the event that the Alternate Shipper does not issue a valid Alternate Interruption Confirmation Notice Transco will designate the initially selected Primary Shippers site/sites to satisfy the interruption obligation.

Upon the Alternate Shipper issuing the Alternate Interruption Confirmation the Alternate Shipper will be liable for failure to interrupt charges. In the event that the Alternate Interruption Confirmation has not been received by Transco, the Primary Shipper will be liable for failure to interrupt charges.

In order to ensure that the impact of such a service, on the efficiency and effectiveness of the interruption process, is minimised it is proposed that a

register is set up and only Shippers registered to the service permitted to participate.

Under prevailing Network Code conditions Transco has a requirement to maintain sufficient days of interruption at each interruptible supply point, to maintain an acceptable confidence that security of supply can be achieved. Two options have been identified for supply points identified on Alternate Interruption Confirmation Notices:-

1. Transco will accept all Alternate Interruption Confirmation Notices, subject to locational constraints on Supply Points and consistency with an Interruption Confirmation Notice from a Primary Shipper. The interruption will count as a day of Transco interruption in respect of the Primary Shippers supply point initially elected by Transco.
2. Transco will retain the right not to accept Alternate Interruption Confirmation Notices on the grounds that sufficient days of interruption must be maintained across appropriate locations to maintain security of supply, but the supply point that is physically interrupted will count as a day of Transco interruption."

2. Transco's Opinion

This Proposal is designed to afford opportunity for increased use of the "market" to determine which sites should be interrupted when Transco has a requirement for interruption, and where such choice is available having due regard to operational circumstances.

The Proposal seeks to extend current opportunities, where such transfer can take place within an individual shipper portfolio, to transfers between shippers. Thus the Proposal aims to provide market participants with a greater opportunity to maintain supplies to interruptible sites that place a higher value on such gas-supply being maintained. This is likely to lead to increased levels of interruption at sites which place a lower value on the continued offtake of gas. It is envisaged that the value realised in such transactions would be shared between those shippers, suppliers and end-users creating that value.

Transco raised this Proposal to enhance the operation of the interruptible arrangements in a manner that it believed was consistent with interruptible supply arrangements.

Recent discussions with shippers, and with end-users at the Customer Forum held by Transco, and views contained within the responses to this consultation, have indicated concerns about the nature of current interruptible supply contracts and their potential interactions with this Proposal.

Transco recognises that the scope to transfer interruption to sites may depend on the ability of such site interruption to be classified as Transco interruption under the terms of the downstream contractual arrangements between the relevant shipper, supplier and end-user.

Having taken account of the various representations made, Transco's interpretation is that whilst the interruption transfer envisaged within this Proposal may well be "within the letter of these contracts" that some shippers and many end-users believe that it is outside of the "spirit of those arrangements". Put quite simply, such interruption might not be precluded by the arrangements but neither was such an opportunity recognised, and therefore factored into considerations when the arrangements were agreed.

Transco notes that the downstream interruptible supply contracts might not necessarily facilitate an efficient outcome which reflects the value of interruption as determined by the end-user. Transco notes that, because the circumstances envisaged by this Proposal were not envisaged at the time such agreements were struck, these agreements might not encourage a full consideration of end-user value to inform transfer opportunities. Therefore such transfer of interruption might be determined by the valuation that individual shippers place on interruption. This might be determined by consideration of the shipper's aggregate anticipated imbalance position and the shipper's value consideration of continued gas supply to individual supply points within their portfolio. Given that this service was not envisaged at the time that most interruption arrangements for this winter were negotiated Transco is mindful that end-user value considerations might not feed into interruptible transfer decisions this winter. Transco notes that if this was to be the case then it would seek to undermine the primary objective of this Proposal.

Transco also notes that implementation of this Proposal to take effect this winter would necessitate an increased responsibility for shippers to support the necessary administrative processes to deliver the transferable service. This arises from the fact that there will not be sufficient time to modify Transco systems to support the generation of lists of potential sites that could be interrupted to support the alternate shipper. Transco believes that the low level of interest from shippers during Workstream sessions and in responses to this consultation is indicative of the low valuation that shippers currently place on the potential associated with this Proposal.

Transco therefore considers that the effort to introduce this service for this winter may exceed the potential benefits that would arise from the low expectation of take-up of this service this winter.

This does not mean that this service would not add value within the regime but rather that benefits are unlikely to accrue this winter. Transco considers that the valuation of interruption is a matter that needs to be considered in the context of shipper, supplier and end-consumer benefits and cost trade-offs. The full benefits might then become apparent and this would better inform the precise form of a proposal which might then be reconsidered for

implementation next winter. This would permit careful consideration of the systems, administrative and practical issues associated with the transfer of interruption concept which might increase the likelihood of delivering an economic and efficient implementation.

Transco therefore recommends that this Proposal should not be implemented. However Transco intends to raise the issue of transferable interruption rights as a topic at the December NT&T Workstream. Transco would then intend to encourage shippers, suppliers and end-users to work starting in January to develop proposals that might be capable of implementation next winter.

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

The Proposal affords greater opportunity to develop incremental services that might deliver a better 'market solution' in respect of the determination of which sites might satisfy interruption requirements. This is consistent with the provision of the securing of effective competition between relevant shippers and between relevant suppliers.

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

a) implications for the operation of the System:

The Proposal might lead to different sites being interrupted where Transco requires interruption.

b) development and capital cost and operating cost implications:

Transco envisages that capital and operational costs would be incurred to ensure changes to interruption processes that would ensure the revised administrative and communications processes would be consistent with the timely confirmation of the transfer of interruption.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Any incremental operating costs would be shared between Users and Transco in accordance with SO incentive arrangements.

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 anticipates that implementation of the Modification Proposal would have no such consequence.

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

Some enhancements to Transco systems would be necessary to ensure that this Proposal could be efficiently implemented. In the short term, should this Proposal be implemented, Transco would seek to make some procedural changes and develop some manual work-arounds to ensure that interruption confirmed by alternate shippers would be sufficient to satisfy requirements.

Shippers would need to amend their systems and/or processes, should they wish to use the service. The effectiveness of communication processes are critical in respect of Transco interruption and so a high reliance on these communications is necessary if such interruption is to be effective. Shippers currently using IX communications for interruption purposes would have to make changes to their systems if they were to participate in the interruption transfer process envisaged in this Proposal.

7. The implications of implementing the Modification Proposal for Users

Transco anticipates that changes would be required to Users systems and business processes should they choose to participate in the transfer of interruption.

In order for some Users to participate in the proposed service, Transco recognises that some changes to contractual arrangements might be necessary.

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

Transco considers that the implementation of this Proposal may afford opportunities to refine the distribution of interruption between Supply Points. This may afford benefits to end-users by providing greater flexibility in respect of how Transco's requirements for interruption are satisfied. This Proposal aims to provide the 'market' with a greater opportunity to maintain supplies to sites that place a higher value on such gas-supply being maintained and may therefore increase the incidence of interruption at those sites which value it less.

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 considers that greater clarity in respect of downstream contractual arrangements may be necessary to better facilitate efficient outcomes. Transco would expect this clarity to develop as downstream players develop contractual arrangements that will enable the service to be utilised and to distribute the resulting value between relevant players.

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

Advantages:-

- enhances interruption services by introducing more flexible arrangements for Users and end users, in which market based approaches are promoted whereby those sites valuing continued gas supply are afforded the opportunity for this to happen where it can be accommodated.

Disadvantages:-

- increased complexity in respect of the operation of interruption process management.
- the increased administrative requirement may generate higher risks of the required volume of interruption being achieved, this may lead to Transco calling for higher levels of interruption to offset such risks.

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

15 responses to the Draft Modification Report were received.

Scottish Power	SP
ShellGasDirect	SGD
British Gas Trading	BGT
Scottish and Southern Energy Supply ltd	SSE
EDF Energy plc	EDF
Major Energy Users Council	MEUC
Energy Intensive Users Group	EIUG
Corus UK ltd	Corus
Association Electricity Producers	AEP
Innogy	Inn
Terra Nitrogen (uk) ltd	Terra
Statoil (uk) ltd	STUK
Chemical Industry Association	CIA
Hydro Polymers	HP

Ineos Chlor and European Vinyls Corporation

ICEV

10 respondents (SP,SGD,MEUC, BGT, Terra, Corus, HP, CIA, EIUG and ICEV) were not in support of the Proposal.

5 respondents (EDF, AEP , SSE, Inn and STUK) offered qualified support for the Proposal.

Increased Flexibility

EDF offered qualified support on the basis that the proposal may , *'provide a degree of flexibility with respect to the transfer of interruption of peak demand days'*. Innogy supported the principle of encouraging, *'market based solutions to be developed that provide customer the opportunity to better attribute value to interruption'*.

Transco response

Transco remains of the view that the current interruption processes could be improved to afford greater opportunity for “market valuations” to determine, under circumstances where such options exist, which sites will be interrupted when Transco requires interruption. This recognises that some sites will value continuation of gas supplies higher than other sites. Where it is practical to do so, Transco believes that shippers and end-users should be enabled to achieve the most economic and efficient allocation of interruption. This would enable those sites which most highly value continued gas supply to continue to offtake gas with interruption occurring at sites who place lower value of continuation of the service. Transco envisages that the commercial contracts and financial implications of this will be determined outside of the Network Code. This should afford the opportunity for the “market” to determine the appropriate distribution of value arising from the service between the relevant shippers, suppliers and end-consumers.

Impact on Winter Operations

SGD, STUK and Terra believed that the proposed service would have little if no effect on security of supply for this winter.

SSE appreciated Transco's concerns regarding security of supply this winter which may require greater levels of Transco interruption and as such *'welcomed moves to provide Users with greater flexibility in terms of meeting these requirements'*.

Transco response

Transco has indicated that it perceives a higher risk of Transco invoked interruption this winter, particularly should a winter of greater severity be experienced when compared with recent experience. Under many scenarios Transco's interruption rights will be sufficient to deliver security of supply. However Transco believes that this Proposal might assist to increase the efficiency of the allocation of that interruption.

Increased Complexity and Interruption Timescales

SP, SGD, SSE, Corus and STUK concur with BGT's statement that, *'the result of implementation of this proposal could introduce further*

complication and confusion to a process which can be critical to security of supply'. SSE believed that there could be a 'considerable potential for error or misunderstanding'. Corus expressed concern that as a result of increased complexity of interruption arrangements allied with the inevitable contractual disputes that would arise between shippers and end users, there may be an increase in the frequency of sites failing to interrupt.

SSE, STUK and SGD suggested that it would be difficult to carry out proposed interruption transfers within prevailing interruption timescales. SSE and Inn believed that carrying out the proposed interruption within such challenging timescales may increase risk of failure to interrupt. SGD raised concern that additional resources would be required to ensure that interruptions were carried out within prevailing timescales and suggested that the Modification Proposal could only work if notice given by Transco to Shippers for interruption was extended to 7 hours. SSE stated that it had, *'some concerns that the potential benefits associated with the above proposal could be outweighed by administrative arrangements'*

Transco response

Transco recognises that implementation of this Proposal would increase the complexity of the processes associated with Transco interruption. This increase in complexity needs to be considered in the context of the potential benefits associated with implementation.

In Workstream discussions that contributed to the development of this Proposal Transco had indicated that it might be possible to implement this service with minimal system changes. Transco has identified, during the period of consultation associated with this Modification Proposal, that it is unlikely to be possible, ahead of this winter, to implement changes to Transco systems to facilitate generation of alternative interruption notices by shipper. This means that the business processes associated with implementation would depend critically upon the generation of the appropriate notifications by shippers.

The effectiveness of communication processes are critical in respect of Transco interruption. Current business processes will only call for interruption where it is essential. The delivery of physical performance is not an option; it is essential to ensure the integrity of the system and ultimately, if interruption is not effected in a timely manner, such inadequacies could jeopardise safety.

Consideration of these risks has been a contributory factor to the Transco recommendation not to implement this Proposal for this winter.

Shipper/End consumer contracts

AEP expressed the view that the Modification Proposal was, *'trying to introduce 'market' based interruption in a way that could potentially bypass customers being involved in the process'*. AEP highlighted that its major concern was Shipper entering into agreement for the transfer of interruption without consulting their customers.

Corus stated that , *'it was unlikely that pre-existing contract between gas suppliers and end-users would cater for Transco's proposed Network Code modification as the concept of transfer interruption obligations between shippers is entirely new'*. SGD stated that the proposed service would, *'undermine effective competition between suppliers by potentially intervening in the commercial decisions already made by suppliers and their consumers'*. SGD added that the Proposal changes the meaning of 'Transco interruption' for existing contracts between supplier and customer and suggested that these contracts would require the addition of separate terms with such contractual renegotiations unlikely to be achieved this winter.

MEUC noted that these contracts were drawn up on the basis of the existing Network Code rules and raised concerns that as this Proposal was not foreseen most of these contracts would not specifically prevent a Shippers from transferring sites MEUC concluded that, *'it would be wrong to allow this to happen when most consumers would be totally opposed given the choice'*.

AEP and EIUG raised concerns over Shippers ability to increase the number of days a site is interrupted, *'without those customers being directly involved in the decision, e.g by having a right to veto, or to access to some mutually agreed mechanism for compensation'*. EIUG considered it, *'wholly improper to institute such changes during existing contract period'*. AEP believed that implementation of the proposal may, *'lead to an inefficient outcome where Shipper value rather than customer value is the determinant of which sites are ultimately interrupted'*. ICEV asserted that it was not convinced that shipper and suppliers will pass these benefits back to consumers.

Corus noted that, *'the shipper/supplier is likely to be willing to transfer site specific interruption obligations only if it gains financially'* and recognised that the proposed service facilitated the development of 'commercial interruption' arrangements. SGD also noted that such a service might be viewed by many consumers as a form of 'commercial interruption' not expressly permitted in the contract and noted that there was insufficient time this winter to renegotiate these contracts. ICEV expressed concerns that it had never accepted commercial interruption in its contracts however this proposal seeks to introduce commercial interruption through the 'back-door'. CIA, AEP and Terra believed that the Proposal reduces clarity over commercial vs Transco interruption than already exists.

STUK considered that, *'if commercial interrupton were used then swapping arrangements would have to be agreed well in advance and would have to presupposes the exact circumstances of the interrupton'*.

Terra and Corus believe that although Shippers may benefit from the trade, the benefits may not be passed through to the end-user that is interrupted. Corus observed that there may be an ,*'adverse consequence of the Modification Proposal'* in that it might, *'present an opportunity for Shipper/suppliers to profit from their pre-existing supply contract which*

have a provision for commercial interruption by enabling them to sell interruption rights.....and also gaining a second advantage by selling on gas not used by their end consumer as a result of transferred interruption obligations'.

CIA expressed concern that attempted to interrupt sites on an equal basis within a constrained part of the network and suggested that, *'this level of equality could disappear under the proposed modification'.*

SP highlighted concerns that it was not convince that all the commercial implications had been explored.

Transco response

Transco considers that the implementation of this Proposal would better facilitate the development of more value based interruption arrangements. These might provide greater flexibility and choice when such flexibility is available.

Transco is encouraged by the extent of end-consumer responses to this consultation. End-users should, and now are, aware of the Transco view of increased risk of Transco interruption, particularly should a winter severity beyond recent experience occur. Transco believes that these risks have been exacerbated because of the progressive reduction in shipper interruption rights over recent years. Transco believes that sufficient shipper interruption and other demand side management rights should be available to ensure that a supply/demand match can be achieved. This may afford a significant opportunity for those that can deliver demand side flexibility to be rewarded for the provision of such service which could contribute to improved security of supply. This may be particularly important during the next 2 or 3 years; a period when most market observers would perceive the supply/demand position as being very tight.

Transco notes that there appears to be considerable uncertainty about the various roles of interruption.

Interruption rights currently reside with both Transco and shippers. However Transco and shippers have different requirements. It is Transco's view that it may be desirable for it to have interruption rights to address transportation requirements, specifically exit transportation constraints. The establishment of these rights are a primary focus of the current exit regime reform process. Transco also believes that, whilst it has a residual supply/demand balancing role (which is currently focussed on within the gas day activity), the primary responsibility for supply/demand balancing resides with the community. This should embrace providing an appropriate level of shipper interruption/demand management rights to deliver supply/demand balancing over longer periods than a day but with sufficient "cover" to satisfy annual severe weather conditions.

The Network Code enables Transco interruption for transportation constraint reasons and when forecast demand exceeds 85% of the peak day forecast.

Transco believes that the latter may, at least to an extent, reduce the effectiveness of the current gas trading arrangements. Firstly Transco believes that the prospect of Transco interruption on days above 85% of peak day demand may have contributed to shippers giving up their interruption rights on the assumption that Transco will interrupt. This may have become a self-fulfilling prophecy with Transco actions on such days now more likely given that most shippers have given up their interruption rights. Secondly such Transco interruption for supply/demand reasons occurs without any valuation being fed into the market, via the imbalance arrangements and cashout price determination on the day.

Transco considered proposing amendments to the Network Code this winter but concluded that such fundamental changes should only be considered in the context of sufficient leadtime to enable market players to revise their contracts in the light of such a change in the Network Code.

This Proposal was raised because it was considered to be an enhancement to the existing interruption that would be consistent with current downstream interruptible supply arrangements.

Recent discussions with shippers and with end-users at the Customer Forum held by Transco, and views contained within the responses to this consultation, have indicated concerns about the nature of current interruptible supply contracts and their potential interactions with this Proposal. Having taken account of the various representations made Transco's interpretation is that whilst the interruption transfer envisaged within this Proposal may well be "within the letter of these contracts" that some shippers and many end-users believe that it is outside of the "spirit of those arrangements". Transco notes that these contracts might not necessarily facilitate an efficient outcome which reflects the value of interruption as determined by the end consumer. Transco notes that, because the circumstances envisaged by this Proposal were not envisaged at the time such agreements were struck, these agreements might not encourage a full consideration of end-user value to inform transfer opportunities. Therefore such transfer of interruption might be determined by the valuation that individual shippers place on interruption. This might be determined by consideration of the shipper's aggregate anticipated imbalance position and the shipper's value consideration of continued gas supply to individual supply points within their portfolio. Given that this service was not envisaged at the time that most interruption arrangements for this winter were negotiated Transco is mindful that end-user value considerations might not feed into interruptible transfer decisions this winter. Transco notes that if this was to be the case then it would seek to undermine the primary objective of this Proposal.

Transco considers that the valuation of interruption is a matter that will need to be considered in the context of shipper, supplier and end-consumer benefits and cost trade-offs. This would suggest that a longer lead-time for implementation of this Proposal, or a successor proposal, might be appropriate to enable discussions between end-users and suppliers and, if necessary, interruptible supply contract changes.

Impact on End Users

ICEV expressed concern that, the mechanism proposed provided little or no protection for end users'.

SGD asserted that Transco in its winter operation report suggested that Proposal would allow a generator to continue generating while industrial consumer are interrupted. SGD asserted that there was no reason to believe that industrial consumers place lower value in keeping gas on. SGD said it was aware of concerns expressed by industrial consumers that such a proposal could lead to discriminatory approaches.

CIA, ICEV and HP asserted that the modification proposal may discriminate against sites that were not involved in electricity generation. HP stated that, *'it signed the gas supply agreement on the understanding that the interruption regime is based on a safety case and that all such customers would be considered on an equal basis'*.

Terra noted that encouraging shippers to trade interruption introduces concerns about transfer of confidential information about an End-user from shipper to shipper, which have not been addressed.

STUK and Terra raised concerns that such a fundamental change to the nature of interruption in UK gas market should have been consulted upon within a wider forum than the Workstream. STUK concern was that end users may not be aware that their interruption had been traded this way.

Transco response

This Proposal has been designed to provide greater scope for value considerations to feed into the interruption site selection process where such choice can be exercised. In such circumstances interruption would be determined in accordance with the contractual arrangements that exist between shippers, suppliers and end-consumers. This Proposal relates to interruption requirements established by Transco under the Network Code, which therefore may be referred to as "Transco interruption". The Network Code also defines some of the consequences, for example, where the failure to interrupt liabilities reside. Where there is some discretion as to which sites are interrupted this may be influenced by the shipper/supplier/end-consumer interruptible supply contracts. This is the current position, although implementation of this Proposal might extend the opportunities that already exist under the current arrangements for transfer of interruption across shipper portfolios where the shipper/supplier/end-consumer interruptible arrangements afford such scope.

Transco believes that the data-confidentiality issues alluded to are a matter for end-users to consider in the light of their supply contracts.

Transco regularly updates the Customer Forum on important Network Code and Licence issues and did so on this very topic on 17th November. Transco envisages the next Customer Forum will further discuss the subject of interruptible arrangements.

Exit Capacity Review

AEP, SGD and BGT considered it inappropriate to introduced changes to interruption arrangements outside of discussion in respect of the major reform arrangements for the exit capacity and interruption regimes. BGT believe that *'an issue of this complexity is best resolved in the context of this more detailed review rather than by means of an under developed 'quick fix' as proposed in this modification'*. SGD believed that it was inefficient and inconsistent to introduce this change while other changes to the interruption regime are being discussed. SGD expressed concern that the implementation of such a proposal may undermine future reform and therefore the Modification Proposal should have been kept as part of ongoing discussion on the development of the exit capacity and interruption regime. SGD added that it was unclear how this Proposal would interact with other Transco ideas presented in the exit capacity workstream.

Transco Response

Transco raised this Proposal with a view to implementation ahead of completion of implementation of the reforms that are expected to emanate from the exit regime reform process. The exit reforms have a primary focus on the use of interruption in so far as it can be used to address the management of exit capacity rights. This is but one role of demand side interruption. Transco's view is that interruption for supply/demand reasons should be a matter for shippers rather than Transco although, as has been explained earlier, Transco believes that shippers may now be increasingly dependent on the utilisation of Transco's interruption rights under high demand conditions. This may be inappropriate and hence establishes a requirement to consider this issue against tighter timescales than those considered appropriate for the reform of the exit capacity regime. Transco therefore believe that it will be appropriate to consider further proposals in respect interruptible service changes ahead of the anticipated implementation of exit regime reform.

Registration to the Service

SSE noted that it was not clear how a registration service would help in practise and raised concerns that *'any pre registration requirement could actually restrict options and flexibility'*. STUK and Inn supported the proposal on the basis that only Shippers who choose to register for the service should be subject to any new procedures.

Transco Response

In the Draft Modification Report Transco requested views from respondents relating to whether it was appropriate for Users to "register" for the proposed service or whether current interruption provisions within Network Code sufficiently governed the process. Transco agrees with SSE that a requirement to register to the service may create an additional overhead.

In response to STUK's view that only Shippers registered to the service should be subject to any new procedures. Transco considers that the proposal and current network code provisions support the introduction of a service to

facilitate interruption transfers however it does not oblige Shippers to participate in the service.

The interruptible transfer service would increase the administrative burden of the interruption process. Such a scheme would however confer two significant advantages. First, it would identify the shippers (rather than supply points) that might be involved in the transfer process. This would enable an opportunity to focus the testing of new procedures on those shippers that might want to use the service rather than (because of the criticality of the interruption process) a requirement to burden all shippers with such testing requirements. This would avoid the need for shippers not likely to use the service to have to expend effort establishing and then testing new processes and procedures. Secondly when the transfer scheme is invoked Transco would envisage that the interruption transfer would only be accepted by Transco when all shippers involved in a transaction were registered for the service. Thus the registration would improve confidence that the transfer of interruption would be effective. Transco would welcome further consideration of this particular aspect should the Proposal be reconsidered.

Interaction with DN Sale

SGD questioned how the service would operate in respect of the sale of DNs. Questioning how the service would operate if the interruption was transferred to a DN owned by another company.

Transco response

It is expected that the service would be applied at Day 1 in exactly the way defined in the Network Code in a similar manner to the roll-over of other Network Code provisions.

Days of interruption

STUK expressed the view that option 1, to increment the interruption day count and interrupted volume of the Supply point or points Transco originally nominated and advised through the Interruption notification', was the most acceptable option.

SSE, Innogy and EDF (qualified support) considered that option 2 (as detailed in Transco opinion section) was the favoured option to adopt for the proposed service, asserting that this may encourage use of the facility. Though Corus did not support the proposal it consider that should the proposal be implemented it would prefer option 2 considering that, 'it would be odd to propose to credit a site for days on which they have not been interrupted'. AEP understood Transco's desire to retain control over interruption day counts but considered that any proposal that separated the interruption allowance from the actual site that was interrupted as unfair and not in customers interest.

SSE advised that although it supported Transco's endeavours to ensure Transco interruption was allocated equitably across the community if the

community decided to, *'transfer that interruption based on their own assessment of value that should be of no concern to Transco'*.

SGD concur with BGT view that there was, *'confusion about the count of effective days of interruptions, for the customers and the shippers and the attribution of responsibilities in the event of failure to interrupt'*, BGT believe that these issues have not been resolved in industry Workstream discussion to date. SGD stated that it would value further explanation.

Transco response

As part of the Draft Modification Report Transco sought views in respect of the appropriate application of the interruption day count (for Network Code Interruption Allowance purposes) and interrupted volume (for equitability algorithm purposes) should this Proposal be considered for implementation. The Proposal raises issues as to whether the relevant counters should be incremented for the original shipper or the alternate shipper.

The following two options for maintaining the days interruption counts for the purpose of Interruption Allowance compliance were put forward for consideration:

1. to increment the interruption day count and interrupted volume of the Supply Point or points Transco originally nominated for interruption and advised through the Interruption Notification. Interruption of the physically interrupted Supply Points of the alternate Shipper would then not contribute to the count of Transco invoked interruption for interruption allowance purposes.
2. to increment the count and volume of those Supply Points that are confirmed for interruption by the Eligible Alternate Shipper via the acceptance of the Alternate Interruption Confirmation Notice.

Transco has carefully considered the responses to the Draft Modification Report and has had the opportunity to fully assess both options.

Transco believes that option 1 could deliver a service which provides shippers with the flexibility to transfer interruption obligations at a minimal cost in respect of its implementation and operation. Such a change could be delivered for the 1 December 2003 through some changes to the operation of the interruption process would be necessary. Alternate shippers would need to identify the sites they wish to interrupt and they would need to communicate such sites to Transco. Some ad-hoc processes would be necessary within Transco to ensure that the necessary volume of interruption matched or exceeded the requirement. Transco will be unable, for this winter, to generate the full system support that would be necessary to fully support a systematised implementation and hence Transco believes that there is a risk that such transfers could not be managed efficiently. This would generate a risk that more interruption might need to be called than was necessary to ensure confidence in respect of system operation or that Transco would have to exercise its discretion not to accept some or all of the transfers. This discretion, given all the downstream contractual issues, might discourage

shippers/suppliers and end-users putting in the necessary effort to deliver arrangements to effect such transfers this winter.

Option 2 would be harder to implement from a systems perspective. Transco does not consider that it would be feasible to offer this service without full systems support. Preliminary investigations have established that this will not be possible during this winter.

Transco recognises that the scope to transfer interruption to sites may depend on the ability of such site interruption to be classified as Transco interruption under the terms of the downstream contractual arrangements between the relevant shipper/supplier and end-user.

Transco therefore concludes that whilst implementation of the Proposal based on Option 1 could be delivered this winter the requirement for revised administrative processes, including the discretion for Transco not to accept such transfers and downstream contractual issues suggest that the efforts associated with implementation might not be outweighed by the benefits. Transco has therefore concluded that it will not recommend implementation of this Proposal for this winter.

Transco Discretion

SSE and SGD are unclear what criteria would be applied by Transco in respect of its right to veto any transfer of interruption. EDF noted that although it recognised Transco interest in having discretion to veto interruption transfer for the purposes of Supply points subsequently exceeding the number of permitted days Transco interruption, it, 'did not feel the Shipper/ end user will be receiving any real choice as Transco will have the last say'.

Transco response

Transco's interruption rights are limited under the Network Code with most interruptible supply points being limited to a maximum of 45 days. These rights, across all sites, will be sufficient under most scenarios to satisfy the Transco requirements for interruption, provide that Transco can exercise some influence over how the days are allocated to each shipper. Transco's requirements will sometimes be location specific and additionally Transco may require the full extent of interruption under some circumstances. This prohibits an entirely free choice as to which sites to interrupt.

Interactions with Electricity Industry

SSE supported Transco endeavours to consider the interaction between the two markets and agreed that in principle it could allow the market to ensure gas fire generation remains on by substituting interruption at other supply points. SSE noted that, '*the only difficulty may be in finding alternative sites of sufficient size to transfer interruption to*'. STUK expected that, 'the majority of those consumers who would be interested in using this service to be those in electricity generation who may be able to share a premium between gas and electricity'.

Transco response

Transco acknowledges STUKs view that the such a proposal may afford benefit to gas consumers generating electricity. This Proposal, however is not specifically targeted at power generation but rather is designed to facilitate any sites that might value continued gas supplies to achieve such an outcome with the required interruption being delivered by sites that might place less value on continued gas supply. As the market develops Transco would anticipate that those who might then provide alternative interruption to ensure that such generators or other end-users can continue to offtake benefit will obtain a share of the benefits derived from the transfer of interruption.

Security of supply

Several respondents make reference to the scope of this Proposal to enhance security of supply.

Transco response

NGT is committed to supporting market processes that will facilitate an appropriate level of energy security. Whilst this proposal is unlikely to have an impact on gas security of supply it is possible that the Proposal might enhance electricity security of supply should electricity generators value continued offtake of gas more highly than some other interruptible gas loads. Transco therefore believes that this Proposal is consistent with delivering a more market based approach to interruption.

Cost of providing the service

STUK questioned how Transco intended to charge for providing this service believing that the service offered no benefit to the security of supply and therefore it would not be appropriate for any cross subsidy to occur.

Transco Response

Implementation of the proposed service would be delivered as a minor enhancement to current interruption processes. Transco does not consider it likely that the costs for delivering and operating the service would be sufficiently great to warrant more sophistication in the current charging arrangements.

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 necessary to satisfy any safety or other legislative requirement.

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

A programme of works would be envisaged, this would involve:

System development and associated implementation.
Develop of interim administrative arrangements to facilitate implementation this winter.

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

Action	Due Date
Consultation close-out	19/11/03
FMR issued	23/11/03
Ofgem decision expected	28/11/03
Systems Development and Implementation	01/12/03

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend 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

Transco does not recommend the implementation of the Modification Proposal and therefore no legal text has been provided.

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 **0658**, version **1.0** dated **24/11/2003**) 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 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.