

Modification Report
Re-instating Interruptible capacity Within Day
Modification Reference Number 0478
Version 2.0

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

To allow Transco to adjust the interruptible curtailment factor during the gas flow day to re-instate interruptible capacity. Notice would be given by a "restoration of interruptible capacity notice" giving the new interruptible curtailment factor. A User's Interruptible System Entry Capacity allocation for the day would still be determined via the mechanism detailed in B2.10.3

2. Transco's Opinion

Transco does not support this Modification Proposal. Transco believes that this proposal is inconsistent with the objective of promoting firm capacity rights within ongoing development of the entry capacity regime.

Transco has concerns that the proposed reinstatement of interruptible capacity changes the concept of the interruptible product. It observes that the proposal would effectively increase the certainty of interruptible capacity in those circumstances where such capacity has been re-instated within-day which could arguably move it closer to a firm product. Additionally Transco observes that implementation of the Proposal would affect the availability of within day capacity and, as Transco is incentivised in respect of the provision of firm capacity, it would be consistent to review of the capacity incentive mechanism.

Transco notes that the Proposal effectively seeks to change the relationship between firm and interruptible capacity. The Proposal implies that interruptible capacity availability should be monitored within day and its availability managed in a similar manner. However [Inn capacity is managed on an end of day basis. There is therefore a possibility of more active management whereby a users interruptible capacity rights could be both scaled back and partially reinstated within day, whereas firm capacity rights once bought back from a user are lost to it for the rest of that gas day.

Transco is also concerned over the risks associated with the level of tracking and monitoring of interruptible capacity that implementation of this Proposal would necessitate. Changes to systems and operational processes would be significant and complex. Transco would also question whether the development of the necessary systems would be an economic use of resources in view of the relatively few occasions that additional firm capacity has been made available following a scaling-back of interruptible capacity.

The proposer has stated that an implementation date of 1 October 2001 would be desirable. Transco advises that it does not believe it would be possible to implement the changes required within this proposed timescale.

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

The proposer states that reinstating interruptible capacity where it is no longer necessary to interrupt will:-

- (i) increase the efficient and economic operation of the system by allowing spare capacity to be utilised through the use of interruptible capacity and
- (ii) aid competition between relevant Shippers by allowing holders of Interruptible capacity to utilise capacity bought where it becomes efficient to do so and thus compete in the gas market by delivering gas at a competitive rate.in that it increases efficiency and economic operation of the system and better facilitates competition.

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

a) implications for the operation of the System:

Transco would be required to increase the level of tracking of interruptible capacity levels it carries out through the day. Additionally implementation of the proposal would affect Transco's management of the system under the current capacity incentive mechanism.

b) development and capital cost and operating cost implications:

Development costs are estimated to be significant. Implementation of the Modification Proposal would involve further complexity in the daily monitoring and tracking of firm and interruptible capacity which may increase operating costs. However as Transco is recommending rejection of the Modification Proposal no detailed analysis has been carried out.

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:

The cost of system development would be met from allowed revenues for such purposes.

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

Transco is unaware of any such consequence.

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

Implementation of the proposal would increase the tracking of interruptible capacity levels within day potentially leading to administrative errors.

Additionally consideration would need to be given to achieving a balance between any reinstatement of interruptible and the priority of making firm available.

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

System changes to support implementation of the Modification Proposal would involve complex reprogramming in respect of introducing functionality to manage "upwardly adjusting" interruptible curtailment factors. Currently the system is hardcoded to facilitate the scaling of interruptible capacity in one direction. The proposal would necessitate new functionality to accommodate "upward adjustments" in the interruptible curtailment factor. Transco advises that is unlikely that it could have the necessary systems and processes in place to support this proposal within the proposed timescale of 1 October 2001.

7. The implications of implementing the Modification Proposal for Users

Implementation of the Modification Proposal would reduce shipper risk of scale back of interruptible capacity on an end-of-day basis. The consequences of a scaleback may still require the shipper to acquire firm capacity with the potential to have the interruptible capacity reinstated. This has the potential of leaving the shipper with surplus firm capacity.

Additionally the User may wish to increase the frequency of within-day monitoring of its interruptible and firm capacity position.

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

Transco is unaware of any such implications.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Consideration would need to be given to achieving a balance between any reinstatement of interruptible and the priority of making firm available.

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

Advantages;

- Shippers would be able to utilise interruptible capacity should it become available following an earlier scale back of interruptible capacity.

Disadvantages;

- Changes the concept of the interruptible product. Making additional capacity available within day as interruptible, indicates a 'firmness' or certainty to the product.
- Causes operational issues in respect of tracking and monitoring of interruptible capacity.
- Would require a review of the capacity incentive mechanism.
- Implies a mismatch of management between firm and interruptible
- Possibly compromises Transco's role in providing firm capacity rather than interruptible capacity.

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

Representations have been received from three shippers:

British Gas Trading
BP Gas Marketing Limited
Powergen

The proposal is supported by one respondent (BP Gas Marketing Limited), supported with a suggested amendment by another (Powergen) and not supported by a third (British Gas Trading).

British Gas Trading questions why users requiring capacity to be available throughout the day should be incentivised to rely on revocation of interruptible capacity rather than holding the appropriate firm capacity. British Gas Trading argues that the modification, if approved, would introduce further uncertainty for users as reinstated interruptible capacity could subsequently be re-interrupted later in the day. British Gas Trading suggests the modification does not increase the efficient and economic operation of the system as shippers would have no certainty that capacity interruption would be relaxed and thereby facilitate additional gas flows. It argues that if capacity were available where security might be at risk Transco would, and should, either release firm capacity or facilitate firm capacity trading. British Gas Trading also argues that the development of an efficient and transparent secondary market could address the issue of any daily firm capacity not being sold into the market and ensure that all firm capacity was fully utilised.

Powergen expresses general support for the proposal and suggest that the present level of uncertainty regarding levels of capacity made available is an indication that the system is not working to maximum efficiency. Powergen adds that the primary driver behind interruptible scale backs should be operational considerations and suggests that Transco is presently in a position to use its dominant position and utilise scalebacks for commercial gains on the daily firm capacity markets.

Powergen states that it would prefer the wording of the proposal to be changed from allowing Transco to adjust interruptible curtailment to obliging it to adjust interruptible curtailment. Powergen queries why Transco has concerns over the potential costs and timescales of such a change and requests more information to facilitate its understanding.

BP Gas Marketing Limited recognises the potential for operational difficulties if the modification is introduced but suggests that there would be benefits from the modification by not forcing shippers to purchase additional daily firm capacity that could be deemed unnecessary if any interruptible capacity could be reinstated.

Transco response

Transco acknowledges the comments put forward in support of the modification regarding the perceived benefits that this modification would provide to those shippers choosing to hold interruptible capacity rather than firm capacity. However, Transco remains of the view that such an outcome would undermine the principles of the present capacity regime of promoting firm capacity rights and that the re-instatement of interruptible capacity during the gas day indicates a "firmness" to the product. Transco agrees with BGT's views that the modification would permit shippers to be increasingly reliant on interruptible capacity and that this would narrow the distinction between the definitions of firm and interruptible capacity.

In respect of the comments put forward by BP Gas Marketing, Transco believes that the likelihood of having to buy firm capacity should be a consideration when shippers choose to purchase interruptible capacity. In any event,

implementation of the modification would still require shippers to consider the need to buy firm capacity in the event that any interruptible capacity that had been scaled-back may not be re-instated.

Transco would argue that within the RGT A capacity regime it is obliged to make firm capacity available in preference to interruptible capacity. The present capacity incentive mechanism was developed consistent with this principle such that it would incentivise Transco to offer additional firm capacity to the market as it became available. To avoid potential constraints, Transco may need to subsequently scale-back interruptible capacity. Transco would also add that because of the increased certainty that shippers expect with firm capacity compared to interruptible capacity, the volumes that Transco releases as firm or interruptible would not necessarily be the same.

In respect of the suggestion to develop a secondary capacity trading market, Transco would welcome any development that would improve liquidity in capacity trading markets and capacity utilisation.

In respect of the potential impact on computer systems, Transco can confirm that the explanation regarding the necessary re-programming of systems, provided in Section 6 of the Modification Report, is accurate and that this would be in addition to the need to develop further requirements to monitor and track firm and interruptible capacity holdings. Transco would not wish to undertake a full impact assessment of computer systems as it is not in support of the Modification Proposal.

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

Transco is unaware of any such requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence

Transco is unaware of any such implications.

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

Transco is not in support of the Modification Proposal and therefore has not developed a programme of works.

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

Transco does not recommend implementation and therefore has not proposed an implementation timetable.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends rejection 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

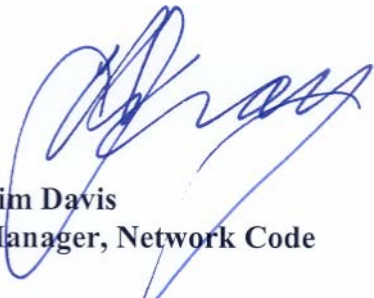
This Modification Report contains Transco's proposal not to modify the Network Code in respect either the original or alternative Modification Proposals and Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

No legal text is provided as Transco is not in support of this Modification Proposal.

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 21st SEPTEMBER 2001.