

Modification Report
Amendment to Minimum Capacity Requirements for Interruptible DM Sites
Modification Reference Number 0556

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

To introduce a maximum limit or cap on the minimum capacity requirement (or “Bottom-Stop” Supply Point Capacity) that Transco determines for Interruptible DM Supply Points. It is proposed that such a maximum limit would be set at the “Maximum Supply Point Capacity” for the site, consistent with the arrangements applying to Firm DM Supply Points.

If the Modification Proposal were approved, Transco would notify the shipper, when required to do so, of the previous winter’s maximum daily consumption and the determined Bottom-Stop SOQ, the latter being capped at the Maximum Supply Point Capacity.

2. Transco’s Opinion

Transco supports implementation of the Modification Proposal principally because it would remove a potential barrier to competition in the gas supply market. Occasional difficulties have been encountered in shipper transfers of Interruptible DM Supply Points. It appears that these largely arise where these supply points have load details that are outside acceptable criteria defined in Network Code and can lead to frustration of the SPA process for shipper-shipper transfers. The Modification Proposal, if implemented, would reduce these difficulties by capping the minimum capacity requirement or “Bottom-Stop” SOQ to a level equal to the maximum supply point capacity for the relevant Interruptible DM Supply Point, an arrangement that presently applies for Firm DM Supply Points and which would assist compliance with the supply point transfer validation requirements. Implementation would, therefore, facilitate competition.

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

It is envisaged that implementation of the modification proposal would reduce the occurrence of invalid site configurations thus alleviating the occasional difficulties that exist in shipper-shipper transfers for certain affected sites. This would further the relevant objective of facilitating competition in supply. Implementation of the modification proposal may also send better signals to Users in respect of the level of interruptible capacity Transco can make available, thus potentially improving the efficient and economic operation of its pipeline system.

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

It is anticipated that implementation of the modification proposal should discourage overstatement of registered capacity by Users in certain circumstances for interruptible DM

supply points, This should allow Transco to make more efficient reinforcement decisions and to designate the interruptible status of interruptible DM supply points more accurately.

b) development and capital cost and operating cost implications:

The development and capital costs would be expected to be around £40,000. There may be an increase in operating costs depending on how shippers respond to their revised Bottom-Stop SOQ values, although it is expected that any increase would be offset by an improvement in the shipper transfer processes and a reduction in the associated administrative costs.

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 costs of systems 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 envisages there being no consequences on price regulation.

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

It is anticipated there would be a reduction in the contractual risk to Transco resulting from improvements in the supply point transfer process.

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

Minor changes to the Sites and Meters Database within UK Link would be required. It is not anticipated that changes to User computer systems would be required.

7. The implications of implementing the Modification Proposal for Users

Users are likely to face less difficulties in becoming the registered User of certain DM interruptible supply points.

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

No such implications are anticipated.

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

No such consequences are anticipated.

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

Advantages :

Reduce the occurrence of interruptible supply points with invalid load details.
Reduce the difficulties that shippers face in becoming the registered User of certain interruptible supply points.
Remove the situation of incumbent shippers being required to book a level of interruptible capacity greater than that which Transco can make available and which, if complied with, by the shipper would place it (the shipper) in breach of Network Code.

Disadvantages :

Transco has not identified any disadvantages.

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

Transco has received representations from nine Shippers and one Industry Group :-

London Electricity Group plc	(LE)
Scottish Power UK plc	(SP)
AGIP (UK) Ltd	(AGIP)
British Gas Trading Ltd	(BGT)
Innogy	(Inn)
Powergen UK plc	(PG)
TXU Europe Energy Trading Ltd	(TXU)
Shell Gas Direct	(SGD)
Statoil (UK) Ltd	(STUK)
Association of Electricity Producers	(AEP)

Of these, six respondents (SP,AGIP,Inn,PG,STUK,AEP) express support for the proposal, three (BGT,TXU,SGD) do not support the proposal, and one (LE) gives no overriding view.
General

Those respondents in support of the proposal put forward the view that implementation of the proposal would achieve alignment in the minimum capacity requirements between firm and interruptible supply points, thus improving consistency in the treatment of all DM supply points. They also suggest that the proposal would improve cost-reflectivity of transportation charges by the anticipated improvement in data quality and that it would

better facilitate the shipper transfer process for interruptible supply points. In particular, AEP suggests that the proposal would remove the previous distortions in transportation charges and would allow Transco to make more efficient investment decisions.

TXU states that it welcomes the initiative by Transco but that it does not believe that the modification proposal is the appropriate way to address the issue. Although supportive of the proposal, SP suggests that some particular markets would be disadvantaged and that the potential benefits may not justify the development costs.

STUK suggests that, as Transco will be making modifications to calculate the Bottom Stop SOQ (BSSOQ), it may be prudent to review the entire process in the future.

SGD states that while it supports initiatives that improve supply point transfers, it has a number of concerns with the specific proposal that would appear to reduce the occasional difficulties with interruptible supply points without “solving the problem”.

BGT makes reference to the Network Code requirements on Users in maintaining customers load details on Transco’s Sites and Meters Database and in ensuring the Supply Point Offtake Quantity (SOQ) and the Supply Point Hourly Quantity (SHQ) data is maintained within the permissible ranges. It states that it believes the purpose of this modification is to ensure compliance with this requirement. BGT further argues that the modification is unnecessary due to the existing licence and contractual requirements on Users and that Transco should be reminding Users of their obligations, and if necessary referring to the Regulator, where breaches have taken place.

Transco's response

Transco welcomes the support expressed for the modification proposal and agrees with the views put forward that implementation of the proposal would facilitate the shipper transfer process for interruptible DM supply points, it would improve cost-reflectivity of transportation charges by the anticipated improvement in data quality and that it would further align the capacity requirements between firm and interruptible supply points.

Transco recognises the merits in discussing operational aspects of the SPA process at a future date if the modification is implemented, but it believes that the modification proposal in its present form provides a resolution to the immediate problems that exist. Transco believes that implementation of the modification, however, would not rule out further reviews taking place that could consider other aspects of the SPA process.

As explained in Section 5 of the Report, Transco does not anticipate the development costs to be significant, and believes that the benefits the proposal would deliver, such as easing the shipper transfer process and the reduction in invalid load data, would outweigh the costs involved in implementing the modification.

Transco recognises the existing contractual and licence obligations on Users in respect of providing accurate load information to Transco and in ensuring the SOQ/SHQ data is

maintained within the permissible ranges. However, it believes that the existing rules for interruptible supply points place difficulties on Users in certain situations in complying with these requirements and that the modification would remove the anomaly that presently exists. Transco does not agree that "the purpose of this modification is to ensure compliance to this requirement" but rather that the modification would remove the difficulties that Users can face in complying with the requirements. Transco does not believe that the modification would remove the onus on Users nor would it affect referral to the Regulator for regular breaches.

Levels of Data Accuracy

Two respondents (TXU,SGD) argue that capping the BSSOQ at the level dictated by the registered SHQ would have the effect of introducing inaccurate data to the system. SGD states that the current methodology allows for the BSSOQ to be set at peak day usage for the previous year, and that it is reasonable to assume that such a peak daily consumption could well be experienced in the forthcoming winter. TXU suggests that if the recorded peak daily consumption is higher than a figure that would be supported by the SHQ, it is more likely that the SHQ data item is erroneous. It recommends that the supply point process forces a review and, if necessary, revision of the SHQ and further suggests that Transco raises it as an issue to enable improvements to be made.

BGT observes that the proposal would effectively ignore the most recent information of peak load capacity for a supply point.

Transco's response

As discussed in the Modification Proposal, one of the shortcomings of the existing rules is that where a shipper has recorded a daily peak consumption higher than the maximum supply point capacity, with the absence of any cap on the BSSOQ the shipper may interpret this recorded value as indicating that such a peak daily flow is available as capacity, and that they are entitled to flow at such levels in the future without compromising the safety of the network. In Transco's view, providing BSSOQ values to the shipper that are uncapped sends mis-leading signals to the shipper about the level of capacity available.

Transco would not ignore the most recent information available on recorded flows, but would suggest that such recorded flows are not an indication of peak load capacity. Transco would continue to provide site consumption data to Users and would expect Users to make the necessary commercial decisions based on such information. The proposal would not lead to inaccuracy of information, as the recorded daily consumption reads would still be available and the capped BSSOQ values would provide an indication of the maximum capacity available.

Transco accepts that there is a need to ensure that SHQ data is also accurate, but it believes that implementation of the proposal would not remove this requirement and if anything would incentivise Users to review the appropriateness of the SHQ data more frequently.

Transco is not aware of any issues surrounding the process for revising SHQ data but it is willing to explore these directly with the respondent that raised the point.

Transportation Charges

The three respondents against the modification proposal comment on the impact on transportation charges arising from changes in the BSSOQ affecting the LDZ commodity rate. SGD argues that the higher LDZ commodity rate for affected customers would appear to be discriminatory as they would be charged on incorrect information and that the proposal would affect the balance of charges between classes of customers. TXU suggests that interruptible customers would face transportation rates above the level appropriate for their consumption.

BGT views the impact on the LDZ commodity rate as Transco seeking to implement an additional financial incentive in order to supplement current requirements to comply with Network Code. It further suggests that this “incentive” would be borne by the end-customer, rather than the User.

While recognising that the potential impact on charges is a side-effect and not the intention of the modification, TXU argues that this is an important issue. It suggests that consideration is given to providing customers and Users with notice of the possible changes to their charges and that during the AQ review processes, transportation charges often change as a result of changes to the SOQ.

Transco's response

Transco can advise that any increase in LDZ commodity rate will only occur with those supply points with a recorded peak daily consumption higher than the maximum supply point capacity or having load details on UK Link that are outside of the permissible ranges described in Network Code. Therefore the present transportation charges based on such load details would arguably be inconsistent with the charging methodology. Shippers are permitted to correct the load details by requesting an increase in the maximum supply point capacity through the correct SPA (supply point administration) processes.

Furthermore, LDZ charges as detailed in Transco's charging statement are based upon SOQs that will not have taken account of peak daily consumptions higher than the maximum supply point capacity level. Transco believes that implementation of the Modification Proposal would therefore tend to improve consistency with the underlying assumptions of the LDZ charging methodology and would improve cost-reflectivity compared to the present arrangements. Such an improvement in consistency with the present charging methodology would ensure that the LDZ commodity rates for all DM supply points are determined in a non-discriminatory manner.

In respect of providing notice to shippers, the SOQ does not change for interruptible sites during the AQ or BSSOQ review. Shippers are informed of the recalculated BSSOQ via the annual BSSOQ review and via an Offer following a Nomination of the supply point.

Supply Point Administration

LE requests that Transco would inform the Shippers as soon as possible if they have breached the previous year's SOQ/SHQ limits. This, it suggests, would allow such Shippers to correctly amend the SOQ with the correct configuration in timely manner rather than waiting until they book new capacity and only then ascertain that they are unable to because of the incorrect configuration. It also enquires how Transco would communicate the new configuration to Shippers and what procedures Transco would put in place to stop this from happening.

BGT also comments on the annual BSSOQ and AQ review processes, and that the revised BSSOQ will automatically reset the SOQ for the site, as this cannot be lower than the BSSOQ. It suggests that it is via this process that the permissible SOQ/SHQ ranges may be breached and that the obligation falls on the User to submit a Capacity revision containing the correct load detail figures.

SGD refers to the provisions allowing Users to appeal the bottom stop through the supply point administration process. It argues that introducing the new definition is likely to lead to a number of appeals being made with the accompanying paperwork and probable delays. It suggests that it would not appear to be an efficient and economic use of Transco's resources and that if the change is requested near or during the transfer of supply, it would actually cause problems in transfer slowing down the process leading to an increase rather than decrease in barriers to competition.

Transco's response

Transco has no plans at this stage to introduce a mechanism of notifying breaches of permissible SOQ/SHQ limits. It believes that this is primarily the responsibility of the User in ensuring that its site does not regularly exceed its maximum supply point capacity. However, Transco is willing to assess the systems impact of introducing such a notification trigger and will make a decision in this regard at a future date. Also, it is envisaged that the potential issue raised by the respondent would not arise since implementation of the proposal would result in Transco capping the BSSOQ at the maximum supply point capacity, which will allow the shipper to book a level of capacity that can be made available by Transco. It is anticipated that the present BSSOQ review process would continue to operate which should allow Users to take the necessary action in a timely manner prior to the start of the new gas year.

Transco can advise that as part of the BSSOQ review process, the revised BSSOQ value does not automatically reset the SOQ for the supply point. In those cases where the revised BSSOQ is greater than the existing SOQ, Transco notifies the User of the revised BSSOQ value and requests that the User reviews the SOQ/SHQ values. Transco agrees that Network Code provides for the User to submit a Capacity Revision containing the correct load detail information.

Transco acknowledges that implementation of the proposal may lead to an initial increase in workload to get supply points to an accurate position but it believes that in the long term more accurate data will improve the efficiency of the shipper transfer process.

Other Areas

TXU requests that Transco shares its analysis on the number of sites affected by this issue (ensuring commercial confidentiality) with the appropriate workstream to facilitate further debate and assessment of the problems and to consider other options.

LE requests development of the SPA issues involved and wider aspects in conjunction with the Shipping community to fully assess its impact and how the changes would work.

LE requests an understanding of the interaction of the proposal with the proposed Interruptible Regime and the level of rebates Transco would have to pay to interruptible customers. It observes that the modification proposal would appear to limit the amount of rebate payable to a shipper as it would effectively cap the maximum supply point capacity a shipper is entitled to book.

Transco's response

Transco gave an indication at the July meeting of the Energy and Capacity Workstream of the number of interruptible DM supply points that had invalid load details and therefore could be affected by the proposal. Transco can also advise that in late July Users were sent a list of their supply points that would be affected by the proposal.

Transco suggests that shippers should raise any specific problems they are experiencing with SPA processes, with either Transco Account Management or their Shipper Advocate in the first instance.

In respect of the interaction of the proposal with Transco's proposal for interruption charging from 1 October 2002, the proposed level of rebates described in Modification Proposal 0555 will be based on the User's registered capacity, rather than BSSOQ. Since modification proposal 0556 seeks to cap the minimum capacity requirement (i.e. BSSOQ) and not, as the respondent suggests, the maximum supply point capacity that a shipper is entitled to book, the levels of rebate would not be adversely affected. Transco would like to remind parties that the existing rules in Network Code provide for an upper limit on the level of supply point capacity that a User can book, equal to 24 times the SHQ.

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

Implementation of this proposal is not required to enable Transco to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Not applicable

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

Mid-October - Completion of development of UKLink Systems

Mid-November - Completion of User Acceptance Testing

1 December - Change to UKLink becomes effective

(For the period between the proposed implementation date of the Network Code Modification Proposal (1 October) and the planned systems change date (1 December) offline systems will be used to track and amend, where necessary, BSSOQ values, although after 1 October the number of such occurrences is expected to be low.)

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

Network Code Modification becomes effective on 1 October 2002

Changes to offline systems used in new site configurations become effective from 1 October 2002

Changes to UKLink become effective from 1 December 2002.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this proposal is implemented.

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

SECTION G - DELETE PARAGRAPH G5.2.3(a)(i) AND INSERT NEW PARAGRAPH G5.2.3(a)(i) AS FOLLOWS

- (i) the amount (the “**Preceding Year Maximum Capacity**”) which is the highest User SPDQ for any Day (other than a Day in the months of June to September inclusive) in the Preceding Year, but not exceeding the Maximum Supply Point Capacity; or

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation 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 **0556**, version **1.0** dated **09/08/2002**) 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 appropriate

provided 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.