

Draft Modification Report
Amendment to Minimum Capacity Requirements for Interruptible DM Sites
Modification Reference Number 0556
Version 1.0

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

1. The Modification Proposal

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 supply point, 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)

Representations are now sought in respect of this Draft Modification Report.

A number of representations have also been made in response to the Modification Proposal. These are summarised below, together with Transco's views.

1. With the proposal to cap the bottom-stop SOQ (BSSOQ) values at maximum supply point capacity, would Transco be intending to notify shippers of any breaches of maximum supply point capacity at interruptible supply points, consistent with the practice for firm supply points ?

Transco's response :

Transco has no plans at this stage to introduce such a notification. It recognises that shippers are notified of any breaches in SOQ at firm supply points. However, this is provided as part of the notification to the shipper that a capacity ratchet has occurred, and reflects the greater significance associated with breaches of SOQ at firm sites compared to the same at interruptible sites.

2. Within the Network Code rules, shippers are permitted to seek a reduction in registered capacity only during the period October – January inclusive (known as the "Capacity Reduction Period"). A reduction in BSSOQ effective from October 1st would not necessarily permit a reduction in registered capacity from the same effective date.

Transco's response :

Transco acknowledges that Users can only obtain a reduction in registered capacity during the Capacity Reduction Period which therefore prevents the approval of a request for a capacity reduction in time for the start of the new gas year. However, as requests can be processed relatively quickly as soon as the 1st October date has passed Transco does not consider this to be a significant issue for Users with interruptible supply points.

3. Would implementation of the modification lead to a significant reduction in interruptible capacity levels relative to those assumed for the purposes of the new price control formula, and if so would this result in an increase in transportation charges ?

Transco's response :

The large majority of booked exit capacity is firm rather than interruptible, and any change as a result of implementing this Modification Proposal would be expected to be (in total for all interruptible supply points) relatively small and in any case gradual. Transco does not, therefore, envisage that there would be any immediate impact on the level of transportation charges and that any longer-term impact would be minor and gradual.

4. Those shippers with sites that have recorded a peak daily consumption higher than the proposed cap level (equivalent to the maximum supply point capacity) will face LDZ commodity rates higher than would otherwise have been the case. As these sites have recorded these consumptions, should this not be an indication of the size of load and thus the commodity rate that they are charged at ? Does the proposal not reduce cost-reflectivity ?

Transco's response :

Those supply points with a recorded peak daily consumption higher than the proposed cap level would inevitably have load details on UK Link that are outside of the permissible ranges described in Network Code. Therefore the determined 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 are based upon SOQs which 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 and thus cost-reflectivity compared to the present arrangements. The total level of revenue collected through LDZ transportation charges would be unchanged by implementation of the proposal. This is because Transco's maximum allowed revenue under Ofgem's proposed LDZ price control formula, is not affected by any change in peak exit capacity bookings.

5. What are the implications of the modification proposal for Shared Supply Meter Points (SSMPs), DM Connected System Exit Points (CSEPs) and supply points with Sub-Deduct Arrangements ?

Transco's response :

The Network Code describes the rules for determination of the "Aggregate BSSOQ" and individual supply point component BSSOQs in respect of SSMPs. Transco believes that these provisions need

not be amended, but would welcome views on whether alternative approaches to the determination of individual BSSOQs would be preferable were this Proposal to be implemented.

The business rules regarding the booking of capacity for DM CSEPs are set out in the relevant CSEP ancillary agreements and NExA's (Network Exit Agreements).

At supply points with Sub-Deduct Arrangements, the existing Network Code provisions are considered to be adequate and Transco does not envisage the need for specific rules for supply points with Sub-Deduct Arrangements.

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. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date: