

Draft Modification Report
Interruption Transfer Service
Modification Reference Number 0658

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

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.

2. Transco's Opinion

Prevailing interruption business processes may lead to the interruption of certain loads that place a high value on gas supply being maintained at that time when other loads, which place a lower value on supply being maintained, might be capable of satisfying the interruption requirement. Whilst under these circumstances such transfer of interruption can occur within an individual Shipper portfolio, transfer cannot currently take place between Shippers. This Modification Proposal, if implemented, is designed to afford the opportunity for such interruption transfer and therefore 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.

Transco recognises that the Modification Proposal may not provide flexibility for all instances where Transco interruption is required, however such services afford greater scope and flexibility when applied to supply/demand interruption conditions. It is proposed that Transco will have discretion as to when transfer services may be available subject to operational requirements.

Interruption arrangements are an essential tool to ensure the Security of Supply within the gas system. The introduction of interruption transfer scheme will increase the complexity of the such arrangements and hence there is a risk that this may have an impact on efficiency and effectiveness of the interruption process. Transco believes that in order to provide confidence in the likelihood of efficient interruption transfer it might be appropriate to introduce a registration agreement in which only Shippers registered to the service will be permitted to participate. Transco seeks views from respondents as to the form such a register should adopt.

Existing interruption arrangements provide for: -

- Shipper election to transfer Transco nominated interruption at a specified Supply Point to an alternate Supply Point within the shipper portfolio. Transco provides the Shipper with

potential alternate Supply Points, which may replace the primary Transco nominated Supply Point.

- "Buddying", where a Shipper can link a firm and interruptible site so that firm demand side management can be taken to satisfy a Transco interruption requirement.

It is considered that such principles provide a basis for the development of incremental services that might facilitate a more efficient market selection of load to be interrupted when Transco nominated Supply Point interruption is required.

Modification Interruption Arrangements - Interruption Incentive & Allowance Arrangements

In accordance with Network Code provision G 6.1.9, in respect of interruptible Supply Points, the registered User shall be entitled to a charge credit where Transco requires interruption on more than 15 days in a formula year. These charge credits will be calculated in the manner provided under 2.1.6 (interruptible transportation) of the Gas Transportation Charges Statement GTCS). The GTCS states that a transportation charge credit by Transco, for any Transco interruption in excess of 15 days, will be at the equivalent of 1/15 of the annual NTS exit capacity and payable to the Shipper not the Supply Point.

Upon Transco proposing interruption of an interruptible Supply Point the relevant Shipper may currently elect to interrupt the Transco proposed Supply Point or arrange an alternative Supply Point within their portfolio. For SO Exit Capacity Incentive accounting purposes the interruption will be assumed to have been executed in respect of the original Transco proposed site. Should any Transco nominated interruption cause the initial 'Transco proposed' interruptible Supply Point to be in excess of the 15 day interruption limit the transportation credit will be invoiced to the Supply Point Registered Shipper.

As defined in paragraph G 6.7.5 (i) Transco required interruption, in respect of an interruptible Supply Point, in any gas year should not exceed the Interruption Allowance of 45 days, except for those where the site registration defines greater levels. Transco seeks to ensure that the days of interruption are distributed equitably across the Shipper community via the equitability algorithm. This algorithm is designed to distribute interruption in proportion to the remaining volume of interruption within a Shippers portfolio.

Interruption Allowance Count & Volume

Transco seeks views from respondents as to how the interruption day count (for Network Code Interruption Allowance purposes) and the interrupted volume (for equitability algorithm purposes) would be applied should this Proposal be implemented. Whilst Transco's business processes propose an initial site (or sites) selection in the event that interruption is required this Proposal, if implemented, would enable the interruption obligation to be transferred to another site/sites. Possible options for maintaining the days interruption count for the purpose of Interruption Allowance compliance are;

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 effectively count as Shipper Interruption although a Transco Interruption Notice would be issued (Alternate Interruption Notice).

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.

If the latter is selected then Transco would have to retain discretion to reject such interruption transfer if it was to generate an unacceptable risk of the Supply Point subsequently exceeding the number of days interruption defined by the 45 day Interruption Allowance. Those Supply Points included on the original Interruption Notice might still be physically interrupted for 45 days in a 1-in-50 Severe winter but may be interrupted on fewer occasions, compared to other interruptible Supply Points, should the demand levels be less than might be expected in a 1-in-50 winter.

If the former is selected then those Supply Points identified on the original Interruption Notice would be deemed to have fully discharged their interruption obligations for a day of Transco interruption and hence may be physically interrupted for fewer days than might otherwise have been expected in a 1-in-50 severe Winter. Interruption of the physically interrupted Supply Points of the alternate Shipper would effectively count as Shipper Interruption and hence they may be physically interrupted for more days than might otherwise have been expected in a severe Winter and so could be interrupted for more than 45 days. It should be noted that the legal text incorporated in this report represents option 1.

For SO Exit Capacity Incentive accounting purposes the transferred interruption will be assumed to have been executed by the Primary Shipper under option 1 and by the alternate Shipper under option 2. Should any Transco nominated Supply Point interruption cause the interruptible Supply Point, identified on the initial interruption notice under option 1 or on the initial alternate interruption notice under option 2, to be in excess of the 15 day interruption limit the transportation credit will be invoiced to the relevant Supply Point Registered Shipper.

For the avoidance of doubt, under either option 1 or option 2 if an interruption obligation is transferred to an alternate Shippers Supply Point then failure to Interrupt charges will be levied against the Shipper of that Supply Point, if it fails to interrupt, in accordance with network code section G6.9.

Transco seeks views as to the preferred option in the consultation before forming any recommendation with respect to this aspect of the Proposal.

Electricity System Implications

Transco does not envisage that implementation of this Proposal would have any detrimental implications for the electricity regime. Indeed Transco recognises that on days of high demand the Electricity System may well be critically dependent on the ability of gas-fired plant to generate over the peaks of electricity demand. Transco considers that the implementation of this Proposal may better facilitate gas supply to interruptible CCGTs to satisfy peak electricity generation requirements by allowing interruption obligations to be met by substituting interruption of non power generation Supply Points.

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 does not envisage that capital and operational costs would be significant.

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 minor enhancements to Transco systems might be necessary to support this Proposal. Transco would welcome responses from Users as to the impacts on their computer systems.

7. The implications of implementing the Modification Proposal for Users

Transco anticipates that minor changes may be required to Users systems should they choose to participate.

Transco believes that implementation of this Proposal affords greater opportunity and freedom for Users to develop better 'market solutions' which might improve the efficiency by which interruption requirements are satisfied. This is consistent with the provision of the securing of effective competition between relevant shippers and between relevant suppliers.

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 benefit End Users by providing greater flexibility in respect of interruption obligations. This Proposal, if implemented, 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. Additionally the Proposal may place a value on relevant End users providing alternative interruption as a service.

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 contractual arrangements may need to be developed between Shippers that wish to transfer interruption obligations.

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.
- potential increased likelihood of failure to interrupt.

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

Transco now seeks responses to this Draft Modification Report.

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

Transco believes that the implementation of this Proposal may provide a means by which security of supply risk can be mitigated for this winter.

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

System development and implementation.
Develop and implement procedural changes to partial interruption processes.
Shipper register as a participant of the service.

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

Action	Due Date
DMR issued	28/10/03
Consultation close-out	18/11/03
FMR issued	21/11/03
Ofgem decision	28/11/03
Systems Development and Implementation	01/12/03

16. Recommendation concerning the implementation of the Modification Proposal

Transco's initial view is that this Modification Proposal should be recommended for implementation.

17. Text

SECTION G: SUPPLY POINTS

Amend paragraph 6.8.2 to read as follows:

“Upon receipt of an Interruption Notice:

(a) the User may request by telephone or facsimile an alteration from some or all of the Supply Points specified in the Interruption Notice to other Supply Points of which the User is the Registered User (such notice specifying both the transferor and transferee Supply Points); and where not less than 5 hours before the Interruption Start Time Transco and the User have agreed (but so that Transco shall not be required to agree) upon such an alteration;

(i) the Interruption Notice will be revised accordingly and resubmitted by Transco to the User by facsimile only as soon as reasonably practicable and the provisions of paragraphs 6.8.3, 6.8.4 and 6.8.5 shall apply to such revised and resubmitted Interruption Notice;

- (ii) for the purposes of paragraph 6.1.9(b) the Interruptible Supply Point shall be that specified in the original Interruption Notice; and
 - (iii) for the purposes of paragraph 6.7.5 and 6.9 the Interruptible Supply Point shall be that specified in the revised and resubmitted Interruption Notice;
- (b) the User (for the purposes of this paragraph (b), the “**transferor User**”) may in addition or alternatively to a request served pursuant to paragraph (a) above, request by facsimile only a transfer of the requirement for Interruption from some or all of the Supply Points specified in the Interruption Notice (for the purposes of this paragraph (b), the “**transferor Supply Points**”) to Supply Points of which the User is not the Registered User (for the purposes of this paragraph (b), the “**transferee Supply Points**”) (such request identifying the location of the transferor Supply Points and the identity of the Registered User of the transferee Supply Points (for the purposes of this paragraph (b), the “**transferee User**”), provided that such request shall not be required to identify the location of the transferee Supply Points); and where not less than 5 hours before the Interruption Start Time both the transferee User has confirmed by facsimile its acceptance of such transfer (such confirmation specifying both the location of the transferee Supply Points and the identity of the transferor User) and Transco has agreed by facsimile with both the transferor User and the transferee User (but so that Transco shall not be required to agree) upon such a transfer:
 - (i) the Interruption Notice will be revised accordingly and resubmitted by Transco by facsimile only to the transferee User in respect of the transferee Supply Points and (where not all of the requirement for Interruption was transferred) to the transferor User in respect of the remaining Supply Points, in each case as soon as reasonably practicable and the provisions of paragraphs 6.8.3, 6.8.4 and 6.8.5 shall apply to such revised and resubmitted Interruption Notice(s);
 - (ii) for the purposes of paragraphs 6.1.9(b) and 6.7.5 the Interruptible Supply Point shall be that specified in the original Interruption Notice; and
 - (iii) for the purposes of paragraph 6.9 the Interruptible Supply Point shall be that specified in the revised and resubmitted Interruption Notice(s).
- (c) In the event that a User has made a request pursuant to paragraph (a) or (b) above, then until Transco has issued one or more revised and resubmitted Interruption Notices, the original Interruption Notice shall remain in full force and effect.

Amend paragraph 6.8.7 to read as follows:

“A User may elect ...:

(i) (subject to paragraph 6.8.2) to receive all Interruption Notices ...; and

...”

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:

Nigel Sisman
Development Manager, Gas Balancing
NT & T

Date: