

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0703
"Clarification of the steps referred to in G6.9.9 which would preclude the
consequences of G6.9.8"
Version 1.0

Date: 14/06/2004

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

The risk that a Shipper's portfolio of interruptible supplies can become charged as firm thus exposing the Shipper to substantial financial penalty can be ameliorated if the Shipper can satisfy the criteria in paragraph G6.9.9 of the Network Code. However, the lack of clarity in paragraph G6.9.9 of the interpretation of "reasonable steps" causes Shippers to incorporate relatively onerous terms and conditions in their supply contracts that can frustrate competition. Clarifying the circumstances under which G6.9.9 applies benefits the economic operation of the gas system.

Nature of Proposal

Paragraphs G6.9.7 and G6.9.8 of the Network Code state that if the number of occasions on which there is a failure to interrupt is at least 5 (or 5% of the portfolio of interruptible sites, where this is greater) in a Gas Year then all the Interruptible Supply Points in the portfolio are re-designated "Firm". Paragraph 6.9.9 states that this re-designation does "not apply where the User demonstrates to Transco's reasonable satisfaction that the User had taken all reasonable steps to comply with the requirement to Interrupt". However, it is unclear from this paragraph what steps would be considered "reasonable" and thus meet with Transco's "satisfaction".

In order to protect themselves against the action or lack of action by a small minority of consumers a prudent supplier would potentially have to introduce a clause of unlimited liability in any contract with all of its interruptible customers. This is clearly not in the best interests of the customers and is unlikely to be commercially agreeable.

It is proposed that the steps that the user must take are made explicit within G6.9.9, so that the User's conduct and terms of agreement with consumers can be effective. These steps might include:

- 1) Executing a documented contract between the User and the consumer in respect of each Interruptible Supply Point, stipulating the terms and conditions of the interruption process. This could include:
 - a) The interruption procedure that is triggered by the Interruption Notice and the failure consequences for the consumer;
 - b) Agreed contact procedures between the User and the consumer;

- c) An update mechanism to ensure that the details in a) and b) above remain current;
 - d) That the process has been subjected to an end-to-end test.
- 2) Confirming to Transco that the User has instructed the consumer to interrupt as required in an Interruption Notice and that the consumer acknowledges receipt of the instruction to interrupt within an agreed notice period.
 - 3) Retaining evidence of the User's instruction to the consumer to interrupt and evidence of acknowledgement by the consumer of the instruction to interrupt.

Provided that the agreed steps are taken then any failure to interrupt by the instructed consumer will not count as a failure to interrupt on the part of the User in G.6.9.7, except where a site has failed to interrupt on more than [3] occasions in the Gas Year.

For the avoidance of doubt, should a consumer fail to interrupt in the circumstances proposed above, it is not the intention of this modification proposal that the User is absolved from incurring any or all of the charges set out in G.6.9.2.

Purpose of Proposal

The purpose of this proposal is to provide clarity for shippers as to what is expected of them when notifying end users of interruption thereby allowing them to mitigate their risk of their entire portfolio being designated Firm which would undermine the incentive properties of the system.

Consequence of not making this change

If this change is not made then shippers will continue to be exposed to uncertainty and potentially penal charges for actions beyond their control, which is not conducive to the economic operation of the gas system.

Area of Network Code Concerned

Section G, paragraphs 6.7 to 6.9

Proposer's Representative

Simon Howe (Npower Gas Ltd)

Proposer

David Tolley (Npower Gas Ltd)

Signature

.....