

**Draft Modification Report**  
**Changing the Basis for Triggering Supply Demand Interruption**  
**Modification Reference Number 0705**  
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**

This Proposal seeks to amend Transco's supply/demand interruption rights set out in Network Code Section G6.7.3(c). It proposes to replace the reference to Forecast Total System Demand with an ability to initiate such interruption where, on any day, Transco determines that there is an Operational Balancing Requirement, which cannot be satisfied by a Market Balancing Action which will meet the requirement. Transco would then have the ability to utilise such rights prior to entering a Gas Supply Emergency.

## **2. Transco's Opinion**

The existing 85% trigger, defined under section G6.7.3 (c) of the Network Code, for Transco to initiate interruption was established with the introduction of the Network Code. Transco believes that the original intent of this 85% trigger was to ensure that Transco was able to interrupt any remaining interruptible load before stored gas volumes were used to meet firm demand. The 85% trigger, defined under section P5.2.1 of the Network Code, above which the Top-up Manager is able to make Top-up Market Offers is consistent with this.

Shell Gas Direct (SGD) raised Network Code Modification Proposal 0699 on 19th May 2004, entitled "Amendment to Transco's interruption rights for supply/demand purposes", which seeks to change Transco's interruption rights from April 2005. The Proposal was sent to the Relevant Workstream for further development and subsequently various scenarios, directly relating to the Proposal, were debated at length on 03 June & 01 July 2004. As a consequence of these discussions Transco brought forward three strawmen proposals developed to meet the concerns expressed by the Relevant Workstream. During discussions, in relation to these three strawmen, two further strawmen were described with the final and fifth strawman being the one now described in this Proposal.

In addition, in its initial Winter Outlook Report for winter 2004/5 published on 17th May, Transco identified a tightening of the supply and demand position for the coming winter due in part to a decline in UK Continental Shelf (UKCS) gas supplies. The report identified that the market would need to deliver a quantity of demand side response equal to the total daily demand of the interruptible market sector if the security of supply in 2004/05 is to be maintained for severe (i.e. 1 in 50) weather conditions. As part of the consultation on 'Transporting Britain's Energy', Transco has subsequently stated that a response from the firm sector may also be required.

Transco considers that given the outlook for the forth-coming winter and, without changing the existing trigger there is a risk of insufficient market response to protect firm supplies during a severe winter at demand levels below 85%. Given the existing trigger, in this situation Transco would not have the right

to initiate supply and demand management interruption and would therefore potentially be forced to declare a stage one gas supply emergency in order to gain access to emergency interruption rights. Interruption called under such circumstances would not attract payment under Transco's Exit Capacity Investment Incentive, thus preventing a valuation of the interruption right and would also not feed into cashout calculations. Emergency interruption would also generally be subject to a reduced notice period, thus providing the Supplier and end consumer with less time to manage the consequences of such interruption requirement.

As a result of the Workstream discussions on Modification Proposal 0699, Transco considers that its existing "supply/demand interruption rights" should be amended for the forthcoming winter in order to maximise the efficient and economic use of available markets prior to resorting to a revised "back-stop" position, which would enable Transco-initiated supply/demand interruption. The term used to describe this "back-stop" position during Relevant Workstream discussions was that it would represent a "level zero" emergency scenario after the market had been exhausted of operationally suitable trades but before declaring a stage one gas supply emergency and hence avoid some of the consequences of such an event.

This Proposal therefore seeks to amend the existing supply/demand interruption rights set out in Network Code Section G6.7.3(c), by replacing the reference to Forecast Total System Demand with an ability to initiate such interruption where, on any day, Transco determines that there is an Operational Balancing Requirement which cannot be satisfied by a Market Balancing Action (because there are no or insufficient Market Offers which are operationally suitable). Transco would then have the ability to utilise such rights prior to entering a Gas Supply Emergency.

Transco notes the views expressed by Users in response to the draft Modification Proposal and legal text released for comment following the July Relevant Workstream meeting and at the Modification Panel on 15th July about the use of the term "operationally suitable" in the draft legal text to determine when to instigate supply and demand interruption. In response Transco would re-iterate its previous statements that it considers that the most efficient and economic means of addressing its residual balancing role is via the On-the-Day Commodity Market first and foremost. In this regard Market Offers will be taken by Transco in accordance with the principles set out in the System Management Principles Statement (SMP). For example, in determining whether or not any action would be operationally suitable Transco would consider:

- The ability of the action to be delivered and have a material effect on the system balance position within a suitable time period; and
- The ability to measure such delivery and effect.

Transco recognises that this commitment to use the market first and foremost before resorting to supply and demand interruption, may potentially result in Transco taking more residual balancing actions on the OCM if Users choose not to address their own portfolio management requirements and instead face imbalance exposure to cashout. This could result in greater User balancing incentives in the short term, incentivising Users, who have the primary balancing role, to make arrangements in the longer term to balance their positions in order to reduce this imbalance exposure. Also in the short term this may increase Transco's exposure under the current Residual Gas Balancing Incentive.

In the longer term Transco considers that this Proposal will facilitate the generation of efficient market signals for demand side participation through increased incentives to post offers on the OCM.

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

In accordance with the GT Licence standard condition 9 paragraph 1. (a), this Proposal seeks to better facilitate the economic and efficient operation of the pipeline system by encouraging the efficient and economic use of the market, whilst retaining the “backstop” ability to access supply and demand interruption before entering a Gas Supply Emergency.

In accordance with the GT Licence standard condition 9 paragraph 1. (c), this Proposal seeks to further secure effective competition between relevant shippers and relevant suppliers by further encouraging demand management where possible, through the market.

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

As an operator this Proposal enables Transco to retain confidence that it can secure a timely physical demand reduction response should it be required to avoid an emergency developing given the degree of change in the gas supply and balancing regimes since the initial introduction of the “85%” rule.

In addition in relation to the Top-up regime, this gas is gas held (or placed) in store to meet firm demand during a ‘1 in 50’ severe winter. Under the existing Top-up rules Transco sets a ‘monitor level’ of gas that must be maintained. Implementation of this Proposal would allow the Top-up monitors for the forth-coming winter to be set lower than that currently proposed as the Modification Proposal will enable Transco to set the monitor levels on the principle and expectation that LDZ Interruptible Supply Points will not need to be supported by Top-up storage.

Using the current Top-up Monitor methodology, Transco's latest analysis suggests the Top-up monitor levels could be of the order of: Short range 100%, Medium range 100% and Long range 80% for winter 2004/5..

Implementation of this Proposal could allow the Top-up monitors to be reduced to the following equivalent levels: Short range 100%, Medium range 100% and Long range 52%.

#### **b) development and capital cost and operating cost implications:**

Transco does not envisage additional capital or operational costs as a result of this Proposal. Winter Injection costs might be reduced as a result of the lower Top-up monitor levels described above.

#### **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:**

Transco is not proposing to recover any development or capital costs arising from the implementation of this Proposal.

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

Due to the potential for additional residual balancing actions being taken on the OCM this Proposal may increase Transco's costs under the Residual Gas Balancing Incentive.

**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 does not envisage any such consequences.

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

Transco does not envisage any implications on existing systems by changing the interruption trigger, though its operational procedures will need to be amended.

**7. The implications of implementing the Modification Proposal for Users**

Transco recognises that the implementation of this Modification Proposal may promote discussions between User and end consumers regarding the nature of their gas supply contracts for winter 2004/05.

The Proposal will provide a greater opportunity for Users to complete their primary balancing role prior to instigation of supply and demand interruption by the residual system balancer.

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

Transco recognises that the implementation of this Modification Proposal may promote discussions between User and end consumers regarding the nature of their gas supply contracts for winter 2004/05.

**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 is not aware of any such consequences

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

**Advantages**

- This Proposal reinforces Transco's commitment to use the market first and foremost before using supply and demand interruption in order to maximise the opportunity for the market to value interruption for supply and demand balancing purposes rather than resorting to the current ECII value which is based on capacity costs,
- It may encourage greater demand side participation in the market,
- It will enable a reduction in the Top-up Monitor levels going into next winter thus reducing the likelihood of counter nomination costs,

- Transco will retain confidence that it can secure a timely physical response should it be required to avoid an emergency developing.

#### Disadvantages

- Due to the potential for additional residual balancing actions being taken on the OCM this Proposal may result in greater balancing incentives through the increased potential effect of these residual balancing actions on cash out prices in the short term. This may result in higher Balancing Neutrality charges for some Users.

### **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 does not anticipate 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 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**

Develop and implement procedural changes to the Interruption processes.

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

Draft Modification Report circulated	-	05 August
Consultation Period Ends	-	26 August
Final Modification Report Issued	-	16 September
Ofgem decision expected	-	Late September
Network Code implementation	-	01 October

### **16. Recommendation concerning the implementation of the Modification Proposal**

Transco recommends the implementation of this Proposal.

### **17. Text**

## Draft Legal Text

Delete G6.7.3 (c)...

*“on any Day in respect of which, at any time, Forecast Total System Demand exceeds 85% of System 1-in-20 peak day demand.”*

... and replace with:

*“ on any Day for the purposes of Operational Balancing to the extent that Transco determines at any time on the Day that there is an Operational Balancing Requirement which cannot be satisfied by the taking of any Market Balancing Action (because there are no or insufficient offers available to Transco which are operationally suitable).”*

***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:

**Richard Court**  
**Commercial Frameworks Manager**  
**NT & T**

Date: