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Transco, shippers and other interested parties

12 October 2001

Dear Colleague,

Modification 485 ‘Extension of Partial Interruption Service to Daily Metered (DM) Connected System Exit Points’ (CSEPs)

Ofgem has considered the issues raised in modification proposal 485 ‘*Extension of Partial Interruption Service to Daily Metered Connected Exit Points*’ and has decided to direct Transco to implement the modification because we believe that it better facilitates the relevant objectives of Transco’s Network Code. Ofgem expects that the modification will be implemented with immediate effect. In this letter, we explain the background to the modification proposal, the nature of the proposal and give our reasons for making this decision.

Background

Transco currently manages network constraints predominantly by interrupting gas supply to customers with interruptible transportation agreements and by constraining the use of LNG Storage capacity that is located close to extremities of the National Transmission System (‘NTS’).

Interruptible transportation arrangements can be included in contracts between shippers and their customers. Typically such contracts provide for some level of shipper interruption and a level of Transco interruption. In terms of Transco interruptions, Transco distinguishes between Standard Interruptible (SNI) and Transco Nominated Interruptible (TNI) supply points. A SNI agreement allows Transco to interrupt the site for up to 45 days each year, while a customer on a TNI agreement may face greater than 45 days of interruption. In return for having interruptible status, a customer receives relief from various transportation charges.

When called upon to interrupt by Transco, the interruptible supply point must cease its entire off-take of gas or face ‘failure to interrupt’ (FTI) charges. The total nature of Transco’s interruption means that the interruptible supply point has no ability to maintain at least some production processes.

The only exception to the obligation to cease the entire off-take of gas is when the interruptible supply point has what is known as a ‘partial interruption service’ agreement with Transco. Under such an agreement, which is administered by an appointed Agent, an interruptible supply point nominates tranches of gas that are available for interruption. When Transco needs to interrupt that supply point, it does so in these tranches, ie. stages, as opposed to the entire gas off-take described above. The volume of gas interrupted is thus closer to that which might *actually* be required by Transco. By contrast, the ‘all or nothing interruption’ which would occur in the absence of a partial interruption service might result in a greater level of interruption than is actually required. The benefit for the supply point concerned is that as it does not have to cease its entire consumption of gas, there remains the possibility that it can keep some production going.

Initially, partial interruption services were only available at a single supply point. Such a supply point needed to have a minimum interruptible tranche of one million therms. In November 1997, Ofgas approved Modification 188, '*Partial Interruption*' and this both reduced the minimum tranche size for such a service from 1,000,000 to 200,000 therms while increasing the number of such tranches in a partial interruption agreement to five. The net effect of this was that a greater number of single supply points now qualified for the benefits afforded by a partial interruption service.

A number of inconsistencies, however, have existed regarding the availability of partial interruption services at supply and exit points other than single supply points. For instance, when partial interruption services became available at interconnectors, they allowed for up to nine tranches as opposed to the five referred to above for single supply points. Also, partial interruption services were only available at shared supply meter points (SSMPs), ie where there was more than one shipper, to the extent that the SSMP had only the one shipper with both interruptible and firm rights. In this case, the partial interruption service would apply to that shipper's rights only and not to any other shippers.

Further, partial interruption services have not been available at all at DM Connected System Entry Points (CSEPs) (eg independent gas transporter pipelines). This is due to the fact that when such services were first introduced, the development of connected system exit points containing DM sites was still in its infancy. As such no set of codified business rules had been agreed to govern the flow of gas between Transco's system and a connected system exit points. Therefore, it was not possible to gain industry agreement for a set of rules for partial interruption at DM CSEPs when the more general firm and interruptible rules had not yet been established. This was prior to the advent of generic ancillary agreements and, as such, the interruption rules for non-supply points such as DM CSEPs were more site specific in nature at the time.

In January 1999 Ofgas approved Modification 301 '*Introduction of Nine Tranche Partial Interruption Service*' and this rectified the discrepancy with respect to the difference in the number of tranches available at supply points and interconnectors respectively. Discrepancies remained, however, in the availability of partial interruption services at SSMPs and DM CSEPs referred to above.

Transco has recently proposed Modification 473 '*Extension of Partial Interruption to Shared Supply Meter Points*' as a means of addressing the inconsistency in the availability of partial interruption services at single supply points and SSMPs. This modification is the subject of a separate decision to be released today.

Transco has also proposed Modification 485 to address the similar inconsistency between single supply points and DM CSEPs.

Proposal

The Modification Proposal aims to provide for partial interruption services at DM CSEPs. In order to do so, it is proposed that the following rules would apply:

1. Tranche Quantities

- The rules on tranche quantities, such as the number of tranches per supply point and the limits of each tranche annual quantity, would be consistent with those contained in the Network Code for supply points.

- The details of the tranche quantities and tranche percentages for a particular DM CSEP would be the same for all CSEP Users and agreed at exit point level, rather than shipper supply point level.
- At registration stage, the details of the tranche quantities will be submitted by the CSEP Agent (see below) and signed by all CSEP Users.
- Any requests for changes to the tranche quantity details will be submitted by the CSEP Agent only and signed by all CSEP Users.

2. Role of Allocation Agent

- The Network Code currently provides for the appointment of allocation agents at DM CSEPs containing more than one User. Where a DM CSEP contains only one CSEP User, then that User would be responsible for the requirements expected of that Agent.
- Although partial interruption requires within-day monitoring of gas flows where interruption has been called, at DM CSEPs the CSEP Agent would not be required to provide within-day allocation as Transco would only be required to monitor within-day flows on an aggregate basis. (Section 3 below)
- The CSEP Agent, acting on behalf of the Users, will have responsibility for the following areas (not exhaustive):
 - a) requesting and confirming partial interruption service details
 - b) requesting and confirming changes to tranche quantities
 - c) the provision of daily allocation between Users to Transco to permit allocation of FTI charges where there is more than one User.
- Transco would not act on the instructions of an individual User CSEP User within a DM CSEP where more than one CSEP User is registered.

3. Failure-to-Interrupt (FTI) Rules

- The rules on FTI and FTI charges would be consistent with the existing principles applying at single supply points with partial interruption and any specific rules contained within the relevant Ancillary Agreement.
- The verification as to whether a FTI has been triggered on an hourly or within-day basis, for any number of tranches, will be based on SHQ (supply point hourly quantity) tranche quantities on an aggregate basis rather than each Users' individual SHQ values.
- Where a DM CSEP contains a firm and interruptible User, the principles in Network Code (GH1.7.13ii) would apply such that a FTI would only be deemed to have been triggered on an hourly basis in respect of the hourly quantity that exceeds the firm hourly allowance.
- Where the FTI has been triggered for any number of tranches, either on an hourly basis or end of day basis, Transco will calculate the FTI charges in aggregate. The agent, where appointed, would provide allocations to Transco to allow the allocation of any FTI charges between CSEP Users.
- In the event that the agent fails to provide Transco instructions for the allocation of any FTI charges, default allocation rules will apply consistent with those set out in the Network Code (G 1.7.13) and the relevant Ancillary Agreement for the purposes of end of day allocation at DM CSEPs.

4. Interruption Notices

- Consistent with existing arrangements for supply points and DSM CSEPs, interruption notices will be submitted to both the CSEP Agent and the CSEP Users of the DM CSEP.

5. Transportation Charges

- Existing Network Code rules provide for charging for administration of the partial interruption service. At present, the administration charge for partial interruption is set at zero.

6. Partial Interruption Agreement

- Where there is to be a change to the details of a partial interruption agreement, such as an additional User, a withdrawing User, or a change to the tranche details, the Agent or User (as appropriate) would re-apply in accordance with the partial interruption application rules. In respect of requests for changes in the Registered Users, if no re-application is received by Transco by the date the change in User takes effect then the partial interruption status will cease.
- The existing timescales set out in the Network Code and the relevant Ancillary Agreement for the registration of a partial interruption service and the registration of DM CSEPs would continue to apply.
- All Users will be signatories to any partial interruption agreement at a DM CSEP and any liabilities will be joint.

Respondents' views

All of the respondents were in favour of the proposal.

One respondent stated that implementation of this modification would allow Transco to interrupt DM CSEPs partially to manage a constraint, rather than fully interrupt where that is not necessary. In this respect it would also enable consumers downstream of the DM CSEP to maintain supplies, albeit at a reduced level.

Another respondent believed that this modification would allow customers served by a connected system to benefit from the same service as is currently available at supply points, thus removing 'the discrimination' that exists between customers by virtue of their type of connection. This same respondent also believed that this modification would help asset utilisation levels and also benefit customers who will be able to reduce their level of activity rather than cease production entirely.

This respondent expressed disappointment that Transco has not reconsidered the requirement to reapply for the partial interruption service each gas year. This respondent argued that this created an unnecessary administrative burden for shippers. The respondent believed Transco should have an internal review process with shippers only being involved when changes are necessary.

Another respondent supported this modification because they could see no reason why a large customer connected to Transco's system through a third party via a CSEP should not be able to take advantage of the additional flexibility afforded by a partial interruption arrangement. That is, they would not have to cease off-take entirely and could maintain some gas off-take.

Transco's views

Transco supports this modification proposal. Transco indicates that currently the Network Code provides for Partial Interruption at Interruptible Supply Points. However, this service is not available at DM CSEPs.

Transco believes there would be merits in removing this differentiation such that DM CSEPs should be eligible for partial interruption services on the same basis as single supply points. This proposal is consistent with modification 473 which Transco has also raised to deal with the extension of partial interruption services to shared supply meter points.

Ofgem's views

Ofgem believes that there is no reason why DM CSEPs should be treated differently to any other supply points or exit points with respect to partial interruption agreements. Ofgem considers that this modification will address this inconsistency and remove an unnecessary restriction in the availability of the partial interruption service. Importantly, this modification will allow DM CSEPs to benefit from the flexibility afforded by a partial interruption service in the same manner as other similar exit points off Transco's system, eg interconnectors.

Ofgem agrees with respondents that, as a result of this modification, DM sites on a CSEP may experience less interruption as it would enable their exit offtakes from Transco's system to be interrupted partially and in stages, thus allowing some gas to continue to be off-taken by the CSEP.

Ofgem considers that the introduction of the partial interruption service at DM CSEPs should better facilitate the efficient and economic operation of the National Transmission System by providing additional flexibility to Transco in managing system constraints. In particular, Ofgem considers that the implementation of the proposal should enable Transco to avoid fully interrupting a DM CSEP when only part of that CSEPs load needs to be interrupted. This should better facilitate the efficient operation of the NTS by ensuring that the level of interruption more accurately reflects what is actually required for operational purposes.

Ofgem also considers that the provision of partial interruption services to DM CSEPs should better facilitate competition by enabling suppliers and shippers to offer a more flexible interruption service to customers at DM CSEPs.

Ofgem's decision

Ofgem has decided to direct Transco to implement this modification because we believe that it would better facilitate the relevant objectives outlined in Standard Condition 9 of Transco's Gas Transporter's licence.

In particular, for the reasons outlined above Ofgem considers that the proposal should better facilitate the efficient and economic operation of Transco's pipeline system. Ofgem also considers that the proposal should better facilitate the securing of effective competition between relevant shippers and relevant suppliers.

Ofgem expects Transco to implement this modification immediately.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the number above.

Yours sincerely

Mark Feather
Head of RGTA