

Modification Report
Amendment to Curtailment time for Interruptible Entry Capacity.
Modification Reference Number 0461
Version 1.0

This 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

It is proposed that the last effective curtailment time for Interruptible System Entry Capacity is amended from 24:00 hours to 02:00 hours on the Gas Flow Day.

2. Transco's Opinion

Transco supports implementation of this Modification Proposal, which would remove the current inconsistency within the Network Code between the last effective time for the curtailment of Interruptible System Entry Capacity and the last effective time for the buy back of Firm System Entry Capacity.

At present, the last curtailment time for Interruptible System Entry Capacity is 24:00 hours on the Gas Flow Day. However, Users are able to submit offers to surrender Firm System Entry Capacity up to 02:00 hours on the Gas Flow Day. These times indicate that between 24:00 hours and 02:00 hours on the Gas Flow Day the only commercial constraint management tool available to Transco is the buy back of Firm System Entry Capacity. Transco believes that both constraint management tools should be available for as long as reasonably practical, allowing it to determine the most appropriate action to take in the event of a need to do so.

Transco also believes that the Modification Proposal would ensure that the firm and interruptible capacity services are treated in accordance with the underlying principles for the constraint management process within the Network Code. Currently there is the potential for the buy back of firm capacity to take place even though interruptible capacity has not been scaled back to a zero flow rate. The proposal would remove this possibility and hence could potentially lead to a reduction in buy back costs, which would be of benefit to all Monthly System Entry Capacity holders that would otherwise incur these costs.

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

Under current Network Code provisions the only constraint management tool available to Transco during the hours of 24:00 to 02:00 on the Gas Flow Day is the buy back of Firm System Entry Capacity. This could result in buy back costs being generated when a more appropriate action may have been the curtailment of Interruptible System Entry Capacity.

Allowing Transco to have access to both constraint management tools for as long as reasonably practical should enable it to manage the system in the manner it considers would be the most appropriate, therefore enhancing the efficient operation of the system.

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

Between the hours of 24:00 to 02:00 on the Gas Flow Day, Transco would be able to scale back interruptible entry capacity if deemed appropriate, therefore reducing the likelihood of firm capacity buy back during this time.

b) development and capital cost and operating cost implications:

The system development costs that would be incurred to facilitate the change to the last effective curtailment time are not expected to be significant. No changes to operating costs are anticipated.

Any impact on buy back costs is expected to be minimal. Since the introduction of the within day capacity market in June 2000, no actions have been taken by Transco between 24:00 and 02:00 hours.

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:

Costs of system development would be met from allowed revenues for such purposes.

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

No such consequences have been identified.

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

No consequences of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code have been identified.

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

In order to implement the proposal a parameter change and some minor code changes would be required to Transco's RGTA capacity system. No other impact on the computer systems of Transco or the related systems of Users is anticipated.

7. The implications of implementing the Modification Proposal for Users

Transco would be able to curtail the Monthly Interruptible System Entry Capacity held by Users up to 02:00 hours on the Gas Flow Day.

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 have been identified.

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 have been identified.

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

Advantages :

Harmonising the time periods for curtailment of Interruptible System Entry Capacity and buy back of Firm System Entry Capacity would allow Transco to have access to both constraint management tools up to 02:00 hours on the Gas Flow Day. Transco would therefore be able to assess the most appropriate action to take in the event of a need to do so between the hours of 24:00 and 02:00.

Transco is not aware of any disadvantages were this Modification Proposal to be implemented.

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

Representations have been received from British Gas Trading (BGT), Total Final Elf Gas and Power (TFEGP), Aquila Energy Trading, Innogy, Powergen and Northern Electric and Gas (NEAGL).

TFEGP, Aquila, Innogy, Powergen and NEAGL all express support for the Modification Proposal and agree that the current Network Code provisions, under which Transco could be required to buy back firm entry capacity before it had scaled all interruptible entry capacity rights to a zero flow rate, should be amended. NEAGL notes that at present this represents a potential risk to MSEC holders, as they would incur 80% of any buy back costs.

Innogy and Powergen also add that they are in favour of an implementation date of 1 October 2001, which would allow adequate time for systems development and testing.

BGT does not support implementation of the proposal. It argues that the interruptible and firm capacity services are fundamentally different and, therefore, there is no need for there to be consistency in their treatment and no requirement for both capacity management tools to be available at the same time.

BGT argues that amending the last effective interruptible curtailment time to 02:00 hours would significantly reduce the time available for users of the interruptible service to make adjustments to balance their inputs and outputs. It believes that this is not such a problem for parties placing buy back offers, as they would have already managed their positions before offering to surrender capacity. BGT argues, therefore, that the two hour period in question is of more value to the party having capacity curtailed than it is to Transco in terms of planning firm capacity buy backs. Although Powergen supports the proposal it also highlights that it would result in a slightly higher probability of interruption, which would lead to more insecurity for shippers.

BGT also disputes whether there would be any increased exposure to buy back. It highlights the comment made in the draft Modification Report that there have never been any additional buy backs between 24:00 hours and 02:00 hours and argues that any curtailment of interruptible capacity which takes place before 24:00 hours should anticipate changes in position until the end of the gas day.

Transco Response :

Transco agrees that the firm and interruptible capacity services are different but believes that this proposal would ensure that they are treated in accordance with the underlying principles of the services as envisaged by the Network Code. Transco does not believe that it is appropriate that Users should be permitted to flow gas under interruptible entry capacity whilst Users which hold firm entry capacity are requested to relinquish their rights, albeit at their own valuation. Transco recognises that this could give rise to greater buy back costs and agrees that this could represent an increased risk to MSEC holders, which would bear a significant proportion of the costs.

Transco believes that the values placed by Users in bids for interruptible entry capacity should reflect the greater uncertainty of this entitlement. Transco notes the argument put forward by BGT that the two hour period is of more value to the party having capacity curtailed. However, it is noteworthy that no other Users suggested this is the case. Transco would also suggest that if Users valued products in the way suggested by BGT, this might be expected to manifest itself through interruptible entry capacity being sold for higher prices or, alternatively, Users seeking the security of firm supply and electing to purchase this instead.

Transco is not aware that Users choose to flow exclusively under firm or interruptible capacity entitlements. It considers that Users of interruptible entry capacity should accept that there is a risk that flows under this capacity could be curtailed in order to protect the interests of firm capacity holders and, as such, would limit their use of interruptible capacity to cover those gas deliveries which can be adjusted.

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

Implementation is not required 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 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence

Not applicable.

14. Programme of works required as a consequence of implementing the Modification Proposal

A programme of works is not required as there would be no changes to UK-Link systems as a consequence of implementing the Modification Proposal.

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

In examining the timescales for the implementation of this Modification Proposal, Transco would wish to avoid problems with system changes similar to those recently experienced and would therefore propose to leave adequate time for sufficient testing. This could mean implementation as late as 1st October 2001, in line with the commencement of the Gas Year and in accordance with the following proposed timetable :

Completion of system changes : 6 August 2001

Completion of User Acceptance Testing : 7 September 2001

Implementation date : 1 October 2001.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal is implemented.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Section B 2.10.2.(ii)

"the time ("**curtailment effective time**").....shall not be earlier than 06:00 hours nor later than ~~24:00~~02:00 hours on the Gas Flow Day...."

Signed for and on behalf of Transco.

Tim Davis
Manager, Network Code

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0461**, version **1.0** dated **27/06/2001**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.