

Transco, shippers and other interested parties

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Dear Colleague,

Modification 473 'Extension of Partial Interruption Service to Shared Supply Meter Points'

Ofgem has considered the issues raised in modification proposal 473 '*Extension of Partial Interruption Service to Shared Supply Meter 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; 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, such a partial interruption service was only available at sites where the interruptible tranche was a minimum of one million therms and where the site concerned was not served by more than one shipper. That is, a partial interruption service at a shared supply meter point (SSMP), ie where there are two or more shippers, would be available only if that SSMP had only one shipper with firm and interruptible components.

In November 1997, Ofgas approved Modification 188 – *Partial Interruption*. This modification reduced the minimum tranche size for such a service from 1,000,000 to 200,000 therms and increased the number of such tranches in a partial interruption agreement to five. The net effect of this was that a greater number of supply points now qualified for the benefits afforded by a partial interruption service. An anomaly, however, existed with respect to partial interruption services at the interconnectors where nine interruptible tranches were permitted. Therefore, in January 1999, Ofgas approved Modification 301 – *Introduction of Nine Tranche Partial Interruption Services* – which rectified this discrepancy. Transco was now permitted to consider on a case-by-case basis applications by customers for partial interruption agreements of between five and nine interruptible tranches.

Neither Modification 188 nor Modification 301, however, addressed the issue that partial interruption services would nevertheless remain available at single supply points only. Shared supply meter points (SSMPs) would only qualify for such a service where the interruptible supply was provided by only one shipper.

Additionally, neither modification dealt with the fact that partial interruption services are not available at DM Connected System Exit Points (DM CSEPs). Ofgem is, however, currently considering Modification 485 '*Extension of Partial Interruption Services to DM CSEPs*' which seeks to address this issue.

Proposal

Transco has raised modification 473 so that partial interruption services are available at Shared Supply Meter Points (SSMPs). In order to do so, it is proposed that the following rules will apply at SSMPs should they choose to apply for a partial interruption service:

1. Tranche Quantities

The existing Network Code rules on tranche quantities, such as the number of tranches per supply point, and the limits of each tranche annual quantity, will remain unchanged.

- The details of the tranche quantities and tranche percentages for a SSMP will apply uniformly at site level, rather than shipper supply point level.
- At registration stage, the details of the tranche quantities will be submitted by the Agent (see below) and signed by all Users.
- Any requests for changes to the tranche quantity details will be submitted by the Agent only and signed by all Users.

2. Role of Allocation Agent

- The Network Code currently provides for the appointment of allocation agents at SSMPs to administer partial interruption agreements with Transco, and Users can specify that Transco acts as the allocation agent. Partial interruption will not be provided at SSMPs where Transco acts as the allocation agent. This is due to the increased commercial decisions that would be involved, such as the agreements of within day allocations for the purposes of allocating failure to interrupt (FTI) charges between Users, and the complexity of any within-day allocation rules that would be required.
- Although partial interruption requires within-day monitoring of gas flows where interruption has been called, at SSMPs the allocation agent will not be required to provide within-day allocations as Transco will only be required to monitor within-day flows on an aggregate basis. (Section 3 below)
- The allocation 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 allocation of FTI charges between Users

Transco will not act on the instructions of an individual User within an SSMP.

3. Failure-to-Interrupt (FTI) Rules

- The rules on FTI and FTI charges will be consistent with the existing principles applying at single supply points with partial interruption and at SSMPs.
- 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 one of the supply points of a SSMP with partial interruption is firm, the principles in Network Code (G 1.7.13 ii) will apply such that a FTI will 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 will provide Transco instructions on the allocation of any FTI charges between 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) for the purposes of end of day allocation at SSMPs.

4. Interruption Notices

- Consistent with existing arrangements for SSMPs, interruption notices will be submitted to both the Agent and the sharing Registered Users of the interruptible supply points.

5. Transportation Charges

- Existing Network Code rules provide for charging for administration of the partial interruption service and SSMPs. 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 will 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 for the registration of a partial interruption service and the registration of SSMPs will continue to apply.
- All Users will be signatories to any partial interruption agreement at an SSMP and any liabilities will be joint.

Respondents' views

All respondents supported the implementation of the Modification Proposal.

Several respondents stated that the extension of the partial interruption service would remove a potential barrier to the establishment of SSMP arrangements, which should lead to an increase in their take up and therefore promote competition. One respondent indicated that the proposal removes an unnecessary restriction in the service that may be offered to customers at shared SSMPs, which by definition are large customers.

Most respondents believed that the proposal would help facilitate a more efficient management of the interruption regime as sites would be partially interrupted to the level that is necessary for operational reasons, rather than be fully interrupted. In particular, one respondent also highlighted the cost benefits this would bring to customers as their production levels would be reduced as opposed to ceasing entirely.

Some respondents expressed disappointment that Transco had not reviewed the requirement on Users to reapply for the service at the start of each gas year. One of these respondents considered that this requirement placed an unnecessary

administrative burden on shippers. The other respondent who raised this point acknowledged that Transco would need to review the partial interruption arrangement and the defined tranches of interruption for a site on an annual basis, but suggested that Transco should carry this out as an internal review and only request that Users reapply when changes are necessary to the arrangement.

A respondent also expressed disappointment that Transco has not simultaneously progressed a proposal to provide the partial interruption service at DM Connected System Entry Points (CSEPs).

Two respondents requested that a timely decision is made by Ofgem on the Modification Proposal to ensure that Users and their customers can benefit from the service over the forthcoming winter period.

Transco's views

Transco is in support of this Modification Proposal. Transco states that currently the Network Code provides for Partial Interruption at Interruptible Supply Points. However, this service is not available at SSMPs unless the SSMP has only one User with firm and interruptible components.

Transco believes there would be merits in removing this inconsistency such that SSMPs should be eligible for partial interruption services on the same basis as single Supply Points.

Transco welcomes the support for the proposal and the comments made by respondents on the potential benefits of the extension of the partial interruption service to SSMPs.

Transco believes it is necessary for Users to reapply for the partial interruption service on an annual basis as it allows Transco the opportunity to review the details of each partial interruption agreement taking into account any changes in the 1-in-20 peak conditions and hence consider any changes to the interruption trigger levels. It also believes that the process of reapplying provides an opportunity for Users to confirm with Transco load details for each partial interruption agreement. Transco however, is in the process of reviewing the registration process to judge whether the administrative workload associated with this could be reduced.

Transco also indicates that a modification proposal to extend the partial interruption service to DM CSEPs needs to take account of the additional complexities of the existing arrangements in place at DM CSEPs. Transco did not think it appropriate to delay introduction of partial interruption at SSMPs until a proposal related to DM CSEPs had been developed.

Ofgem's views

Ofgem believes that there is no reason why shared supply meter points should be treated differently to single supply points with respect to partial interruption services. Ofgem considers that this modification will address this inconsistency and remove an

unnecessary restriction in the availability of the partial interruption service. Under the modification proposal, SSMPs will be able to have more than one interruptible shipper and still qualify, and thus potentially benefit, from a partial interruptible service.

Ofgem agrees with respondents that the removal of this restriction on the availability of partial interruption services should better facilitate competition between suppliers by enabling suppliers to offer a more flexible interruption service to customers at SSMPs.

Ofgem also agrees with respondents that the introduction of the service at SSMPs 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 this proposal should enable Transco to avoid fully interrupting a supply point when only part of that site's load needs to be interrupted. This should better facilitate the efficient operation of the NTS by ensuring that the level interruption more accurately reflects what is actually required for operational purposes. As a result customers, depending on their size and / or location in relation to the surrounding supply system, may also subsequently experience less interruption.

Ofgem's decision

Ofgem has decided to direct Transco to implement this modification as 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 between 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 NGTA