

Modification Report
URGENT Modification Reference Number 0360
Revised Proposal to amend the booking rules for an Interruptible Firm Allowance

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent in order that it can be considered alongside Modification 0324, which is currently awaiting direction by Ofgem, and be capable of implementation by 1 October 1999.

2. Procedures Followed:

Transco agreed with Ofgem (and has followed) the following procedures for this Proposal;

Issued to Ofgem for decision on urgency 23 September 1999
Proposal agreed as Urgent 23 September 1999
Proposal issued for consultation 23 September 1999
Close out for Representations 28 September 1999
Final Report to Ofgem 29 September 1999

3. The Modification Proposal:

The Interruptible Firm Allowance (IFA) is a mechanism which allows shippers with Interruptible sites to obtain some firm capacity (maximum 30% SOQ). Under the current rules for the service all IFAs terminate on 30 September each year and shippers are charged in advance for twelve months firm capacity, irrespective of the date when the IFA was taken out. For example, for an IFA taken out in January, the shipper would pay for twelve months capacity but only benefit from the service for nine months.

This modification proposal suggests that IFAs should continue to expire on 30 September each year. Shippers will receive a single invoice for capacity charges which will be raised when the IFA is taken out. However, rather than paying for twelve months capacity, the shipper will pay capacity charges for the number of days remaining until 30 September. Therefore, for an IFA taken out on 1 January 2000, 274 days of capacity (nine months) will be charged. Where a change in transportation charges takes place during the year no adjustments will be made retrospectively to the charges originally levied.

4. Transco's opinion:

The current arrangements for IFAs could potentially disadvantage shippers which do not take out their allowance with effect from 1 October. Modification 0324 was raised to amend the booking rules for an IFA and proposed that they should run for a complete twelve months and not automatically terminate on 30 September. However, in representations received on this proposal, and subsequent assessment by Transco, it became apparent that this could result in additional administrative complexity and that the aims of the proposal could be achieved through a simpler method.

Transco considers that this proposal will improve the equitability of the service for all relevant shippers and will achieve this aim in the most efficient and cost effective manner.

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

The proposal should better facilitate competition between relevant shippers as it will introduce a system of charging which better reflects the costs of IFAs which are effective from a date other than 1 October.

6. The implications for Transco of implementing the Modification Proposal, including:

a) implications for the operation of the System:

The implementation of this proposal will have no significant impact upon the operation of the System.

b) development and capital cost and operating cost implications:

No additional development and capital cost and operating cost implications are foreseen.

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:

The cost of obtaining an IFA will be unchanged by this proposal. The administration charge referred to in Network Code section G 1.15.2 (b) will remain at zero.

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

It is not anticipated that this proposal will have any impact on price regulation.

7. **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:**

There will be no change to the level of contractual risk to Transco as a consequence of this proposal.

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

There are no anticipated development implications for the computer systems of either Transco or Users as a result of this modification.

9. **The implications of implementing the Modification Proposal for Users:**

The implementation of this proposal will remove the potential disadvantage that some Users may currently face if they apply for an IFA with effect from any date other than 1 October.

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

It is not anticipated that the implementation of this proposal would have a significant effect upon any of the above parties.

11. **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 significant consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party are anticipated as a result of the implementation of this proposal.

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

The principal advantage of this proposal is that it will remove the situation which currently exists where a User may be potentially disadvantaged if it applies for an IFA after 1 October in any gas year.

By retaining the end date of 30 September for all IFAs, this proposal will also have an advantage over Modification 0324 as it will avoid the requirement to issue “reconciliation” invoices to accommodate changes in transportation charges each October. This proposal will therefore be administratively simpler for both Transco and Users to manage.

A potential disadvantage of this proposal is that changes in transportation charges during the gas year will not be accommodated. The capacity charges for an IFA will continue to be raised through a single invoice when the IFA is taken out and Transco does not consider that to revisit these charges during the year would be a cost effective exercise.

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

Transco received six representations from: British Gas Trading Limited, BP Gas Marketing Limited, Eastern Power and Energy Trading Limited, Powergen, Scottish and Southern Energy plc and Yorkshire Energy Limited.

- All six respondents support the proposal and the view has been expressed by a number of these respondents that Modification 0360 is an improvement on the current rules as shippers will only pay for the IFA from the time it is taken out and not face a 12 month charge.
- Scottish and Southern Energy plc (SSE) and Yorkshire Energy Limited support the principle of the proposal but requested that specific concerns be addressed.
- SSE argue it is still not clear how the cost of any additional exit capacity charges might be split between two shippers if a customer changes shipper part way through the year. Yorkshire Energy also suggest that this part of the agreement needs addressing in order to apportion costs more appropriately between shippers.
- British Gas Trading highlighted an issue it raised in response to Modification Proposal 0324 (Revision to the Rules for Booking an Interruptible Firm Allowance) that has not been addressed. This concerned the provision of incentives for both end users and shippers to book IFAs as close to the 1st October as possible: to help prevent the deliberate late booking of IFAs. BGT suggest that this could be achieved by guaranteeing IFA renewal rights only where an IFA has been held for a full twelve month period.
- SSE expressed concern that this proposal has been raised at such short notice, giving insufficient time for Ofgem to direct on this modification and to enable shippers to apply for the service to take effect from the 1st October.
- SSE requested further clarification to explain why it is too administratively complex for Transco to amend the booking rules for IFAs so that they run for twelve months from the acceptance of the application.

Transco Response:

Transco welcomes the unanimous support for the modification proposal and provides the following comments to the additional points raised by the shippers :

- As discussed in the final report for Modification 0324, Transco does not support the issuing of refunds and new invoices in the event of a shipper to shipper transfer during the period of an IFA. This would lead to a disproportionately high level of administration and could therefore increase the costs to Transco of running the service. Recent experience of the service indicates that the number of shipper to shipper transfers at sites with IFAs has been relatively small, and in any event it is likely that the charge for an IFA is most likely to be reflected in end user charges at the start of the IFA rather than during its currency.
- Transco believes the late booking of IFAs is only a potential issue on the first occasion that the service is booked. The IFAs are end-dated on the 30 September and operate for one year (for those IFAs which are made on the 1st October). Additionally, shippers are only guaranteed carryover of IFA capacity rights if on 1st October they hold an IFA service. There are therefore no clear incentives for shippers to delay the booking of the service each year. Transco does not consider that shippers being able to “wait until the last minute” when they initially take up the service is a matter of concern.
- The timetable for this modification has been agreed such that, subject to the representations made by shippers and an early decision by Ofgem, an implementation date of 1 October 1999 for the proposed new service is possible.
- The administration complexity associated with rolling twelve month IFA contracts arises from the fact that such IFAs will span the traditional October change to transportation charges thus triggering the need for Transco to raise further invoices to reflect any change in NTS exit capacity charges. The increase in administration may further be compounded if shippers have ‘back to back’ contracts with their suppliers/end-users

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

This modification is not directly linked to Transco’s compliance with legislation.

15. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:**

Not applicable.

16. **Programme of works required as a consequence of implementing the Modification Proposal:**

There are no modifications required to the UK-Link Systems and therefore a programme of works will not be required as a result of implementing the Modification Proposal.

17. Proposed implementation timetable (inc timetable for any necessary information systems changes):

Transco recommends that this proposal should come into effect from 1 October 1999.

18. Recommendation concerning implementation of the Modification Proposal:

Transco recommends that this proposal is implemented.

19. 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.

20. Transco's Proposal:

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

21. Text:

Legal text attached.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: 29 September 1999

Director General of Gas Supply 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 **0360**, version **1.0** dated **29/09/99**) be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:

Director of Transportation Regulation

Date:

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

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1.Suspense Clause:

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

(i)if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") 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 Director 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.