

Final Modification Report
Modification Reference Number 0324
Revision of the Rules for booking an Interruptible Firm Allowance.

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:

The interruptible firm allowance (IFA) is a mechanism which allows shippers with interruptible sites to obtain a small amount of firm capacity (max. 30% SOQ). Under the current rules all IFAs expire on 30 September each year, no matter which date they were taken out. Also all IFAs are currently charged for twelve months capacity, so if, for example, an IFA were taken out in January the shipper would pay for twelve months capacity but only benefit from the service for nine months.

This proposal, if implemented, will ensure that all IFAs run for a period of twelve months from the date on which they were first taken out.

It is envisaged that shippers will receive a single invoice to cover the 12 month period, with a second reconciliation invoice following any changes to Transco's exit capacity charges.

2. Transco's opinion:

The current arrangements for IFAs could potentially disadvantage shippers which do not take out their allowance with effect from 1 October. This proposal aims to improve the equitability of the service for all relevant shippers by allowing the period of the IFA to run for twelve months, regardless of the date from which it commenced.

3. 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 1999.

4. 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:

The modification has been designed to achieve the objective at a minimum additional cost to Transco and the community.

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 G 1.15.2(b) is presently 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 upon price regulation.

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:

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

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

The database that is currently used by Transco's System Operations to administer the IFAs will require rewriting and testing prior to implementation of this modification.

There are no anticipated computer system development implications for Users as a result of this modification.

7. 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.

8. **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.

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 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.

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

The principle advantage of implementation of this modification is the fact that all IFAs would be effective for a 12 month period from the date on which they were first taken out. This will remove the situation that currently exists where a User may potentially be disadvantaged if it applies for an IFA after 1 October in any gas year.

Transco is not aware of any disadvantages of this proposal.

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

Eight representations were received on the draft Modification Report.

BP Gas, British Steel and AGIP (UK) supported Transco's proposal to amend the rules for booking an IFA.

Other respondents were also in favour of the principle for amending the current rules for booking an IFA but put forward some alternative suggestions.

Yorkshire Energy and the Association of Electricity Producers suggest that in the event that a customer transfers shipper during the period of an IFA, the original shipper should be reimbursed for exit capacity charges paid in advance for the service (according to how much time the IFA has run for) and the incoming shipper invoiced for the remaining period of the IFA.

Scottish and Southern Energy also suggest that if the shipper has changed during the IFA period then it should be the current shipper rather than the original shipper which is billed for any additional exit capacity charges which may occur.

Eastern Power and Energy Trading (EPET) and British Gas Trading (BGT) do not support the Modification Proposal in its current form. They suggest that the expiry date for all IFAs should be retained as 30 September each year but that, contrary to the current service, shippers should only be charged from when the IFA is first taken out. For example, a shipper would only be charged for eight months of capacity charge where an IFA is taken out on 1 February.

It is further argued that this proposal would negate the need for a reconciliation invoice to be issued. Concerns are raised that under Transco's proposals the original shipper would receive a reconciliation invoice after any changes in transportation charges each October. It may be the case however that this shipper no longer has a supply contract with this end user and therefore may not be able to recover the money. The proposal to issue reconciliation invoices will therefore become administratively complex for all parties and will lead to an increased risk of inter-shipper disputes.

In addition to this BGT also suggest that guaranteed renewal rights for the IFA should only be given to shippers which hold an IFA from 1 October to 30 September in order to incentivise bookings for a twelve month period.

BGT also raise the following concerns over the proposal:

- Removing the fixed end date will introduce uncertainty over how much capacity is available at any particular time. Having a fixed end date ensures that all IFA requests will be treated equitably and gives certainty over how much system capacity is available.
- Allowing IFAs to be booked at any time will mean customers will wait to see how severe the winter is likely to be before requesting an IFA. This could mean Transco is flooded with requests at certain times of the year and may not be able to meet the deadlines for granting IFAs. This could result in FTI charges being incurred.
- Alignment of the IFA dates and the supply contract year reduces administration costs for shippers. If this is removed, administration costs for suppliers are likely to increase which will be passed on to customers.
- Customers will not be given any certainty as to the costs of an IFA when they take it out. This will be an additional risk for customers.

Transco Response:

Transco is in favour of keeping the level of administration for the IFA service to a minimum and therefore supports the original proposal to issue one invoice to cover the twelve month period of the IFA, as supported by three of the respondents. If the shipper supplying a site with an IFA changed during this period then no new invoice would be issued to the new shipper until the IFA expired.

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 an onerous level of administration and could therefore increase the costs to Transco of running the service. It is felt that the total charges for an IFA are most likely to be passed on to the end user at the start of the IFA and so the proposal should not lead to an increase in shipper disputes.

Changes in transportation charges are not restricted to taking place on 1 October each year. Therefore the mechanism to issue a reconciliation invoice would still need to be retained. Retaining the end date of 30 September for all IFAs and pro rating the charges according to when an IFA is taken out may not, therefore, avoid the requirement to issue reconciliation invoices.

Although shippers with new requests for IFAs may wait until the winter months to take out an IFA, under Transco's proposal this would then be in force for twelve months and so this benefit will only be realised in the first year. Shippers could still choose to have the IFA run for twelve months from October to September if this fits in better with their supply contracts and decreases the uncertainties arising from changes in transportation charges in October.

Transco does not foresee that removing the restriction that all IFAs should end on 30 September would lead to greater uncertainty in the availability of capacity. Any request for an IFA over 14,650 kWh will continue to be assessed on an individual basis and availability of capacity will be dependent on local constraint conditions.

12. 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.

13. 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.

14. 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.

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

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

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

Transco recommends that the 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 Director General in accordance with this report.

19. **Text:**

Section G Paragraph 1.15

Amend paragraph 1.15.2 to read:

"1.15.2 Where a Firm Allowance is applied for and comes into force under paragraphs 1.15.3 or 1.15.4:"

Amend Paragraph 1.15.2 (d) to read:

"(d) Subject to paragraph 1.15.10, the Registered User shall pay to Transco a charge ("the IFA Charge") in respect of the Firm Allowance for the Firm Allowance Period calculated as LDZ Capacity Charge plus NTS Exit Capacity Charge as set out in the Transportation Statement for the Gas Year in which the Firm Allowance Period Commenced."

Amend Paragraph 1.15.2(f) to read:

"(f) All amounts payable under this paragraph 1.15.2 and those resulting from any adjustment in accordance with paragraph 1.15.10 shall be payable in a single payment respectively, maybe.....;"

Add new paragraph 1.15.2 (h) to read:

"(h) The Registered User will be registered as holding a Firm Allowance at the relevant Supply Point, in the case of an application under paragraph 1.15.3 for a period of 12 months referred to in paragraph 1.15.3 (a) and in the case of an application under paragraph 1.15.4 for a period of 12 months referred to in paragraph 1.15.4 (b) ("the Firm Allowance Period")."

Amend Paragraph 1.15.3 (a) to read:

"(a) shall be for a period of 12 months commencing on the date of receipt by Transco of the confirmation in accordance with paragraph (c)."

Paragraph 1.15.3 (e) delete and replace with:

"(e) for a Firm Allowance in excess of 14,650 kWh/Day (500 therms/Day), received by Transco shall be considered in the order in which they were received by Transco. Where the User has indicated on the application that it be treated initially as an application for a Firm Allowance of 14,650 kWh/Day (500 therms/Day) then this shall be processed accordingly by Transco with the balance being processed thereafter. Where the User has not so indicated such an initial application, then the whole application shall be processed accordingly by Transco."

Paragraph 1.15.3(f) delete.

Paragraph 1.15.3(g) delete "or (f)".

Paragraphs 1.15.3(g) and (h) renumber as 1.15.3(f) and (g) respectively.

Paragraph 1.15.4 (a)(i):

delete "On or before 1st September," replace with

"at least one month before the end of the period of the current Firm Allowance,"

delete "commencing 1st October"

Paragraph 1.15.4 (a) (ii):

delete "before 15th September" replace with "up to 15 Days following such offer"

Paragraph 1.15.4 (b):

delete "1st October" and replace with

"the day following the last Day of the period of the current Firm Allowance."

Paragraph 1.15.5 add:

"Any such transfer of the Firm Allowance shall only become effective from the date Transco has received a notice of such transfer."

New paragraph 1.15.10 to read:

"1.15.10 An adjustment to the IFA Charge shall be made by Transco where the Firm Allowance Period commenced on a date other than the 1st October. Such

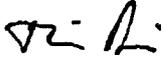
adjustment shall be calculated on the basis that the portion of the Firm Allowance Period in the Gas Year prior to the 1st October shall attract an IFA Charge as set out in the Transportation Statement applicable to such Gas Year and the portion of the Firm Allowance Period in the Gas Year following the 1st October shall attract an IFA charge as set out in the Transportation Statement an IFA applicable to such Gas Year. Such adjustment will be made after the end of the Gas Year following the Gas Year in which the Firm Allowance Period commenced."

New Paragraph 1.15.11 to read:

"1.15.11 Notwithstanding any transfer in accordance with paragraph 1.15.5, the Registered User which first applied for and was granted a Firm Allowance for the Firm Allowance Period (whether under paragraph 1.15.3 or 1.15.4) shall pay all amounts payable under paragraph 1.15 (including those resulting from any adjustment in accordance with paragraph 1.15.10) and be entitled to receive any amount resulting from any adjustment in accordance with paragraph 1.15.10 in respect of such Firm Allowance Period".

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 9 July 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 0324. version 1 dated 08/07/99) 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 0324.

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.

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