

URGENT Modification Report
Maximising Availability of Interruption for Security of Supply Purposes
Modification Reference Number 0669

Version 1.0

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

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 because in making its decision, Ofgem has taken into account SSE's views regarding the likely impact on the safety and security of the network if the proposed modification is not considered for implementation before the onset of severe winter conditions.

Procedures Followed:

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

Issued to Ofgem for decision on urgency	13 November 2003
Proposal agreed as urgent	14 November 2003
Proposal issued for consultation	17 November 2003
Close out of representations	21 November 2003
Final report to Ofgem	26 November 2003
Ofgem decision expected	As soon as possible

1. The Modification Proposal

It is proposed that a new general condition is inserted under the Network Code, to ensure that shipper interruption under the legacy BG Long Term Interruptible gas supply agreements does not restrict or compromise Transco's or NGC's ability to use interruption to balance the system, manage constraints, provide reserve or maximise CCGT output. To ensure this can be achieved further specific provisions are proposed which would restrict the ability to interrupt gas supplies to Supply Points relating to CCGT power stations under these agreements at times of potential stress in gas and electricity systems.

We believe proposals will help ensure Transco and NGC can continue to meet their relevant objectives over this coming winter, operating the system in an efficient, economic and co-ordinated manner and ensuring security of supply can be maintained.

In particular it is proposed that shipper interruption under the legacy BG Long Term Interruptible gas supply agreements should be prevented under any of the following conditions:

- Over the electricity peak demand hours of 15:00 - 21:00.
- On any day or part thereof where a System Warning has been issued by NGC. An NGC System Warning can be issued where there is an Inadequate System Margin, High Risk of Demand Reduction, Demand Control Imminent or Risk of System Disturbance.

- On any day in respect of which the gas Forecast Total System Demand exceeds 85% of System 1-in-20 peak day demand.

In this way generation output can be secured or maintained to meet electricity demand at times of recognised stress, thus maintaining security of supply. Also Transco's options for interruption for constraint management, system balancing or reserve purposes can be maximised. Transco will also have greater certainty of outcome.

2. Transco's Opinion

The "legacy BG Long Term Interruptible gas supply agreements" (BG LTIs) referred to in the Proposal are commercial agreements between the consumer and Centrica Plc. As such these agreements do not fall within the vires of the Network Code. Transco does not consider it appropriate to use the Network Code Modification Rules to seek to restrain the application the commercial application of these agreements. Transco would advise that, to the extent that the proposer feels that the BG LTIs restrict its ability to offtake gas from the System, it should use other commercial, and existing Network Code, options open to it to either:

- renegotiate the terms of the BG LTIs,
- seek alternative supplies during periods of "shipper interruption" either through an additional supply contract with the existing Registered User or, if applicable, through the Network Code Shared Supply Meter Point process,

or, if the proposer feels that the restriction is anti-competitive then, it may wish to seek redress through the Competition Act 1988.

Transco is not aware of any terms within the legacy BG LTIs that provide an obstruction to the safe, efficient and economic operation of the System.

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

The Proposal seeks to introduce terms within the Network Code which would prevent the execution of contractual terms agreed between a User and end consumer. To this extent Transco considers that the Proposal would not facilitate competition between relevant shippers and between relevant suppliers as it could be seen to unnecessarily limit the commercial terms that could be provided by Shippers and Suppliers to their end consumers.

The efficient and economic operation of the System is dependent on the ability of Transco to secure Interruption when it calls for it. The Proposal does not seek to change this aspect of Interruption. To this extent Shared Supply Meter Point provisions enable end consumers to seek alternative sources of supply during periods of "shipper interruption". However, the Proposal, if implemented would oblige a User to deliver gas to an offtake at a time when that User would wish to interrupt its service. To the extent that the User is unable to adjust its supplies to cover the increased demand this would force the User into a negative imbalance position exposing the User to imbalance charges and adversely effecting its ability to meet the requirements of its "firm" supply contracts. This may also lead to an Operational Balancing Requirement which in turn could set cashout prices for the rest of the Users on the System. Transco, therefore, does not consider that the Proposal would facilitate the achievement of the efficient and economic operation of the System nor provide reasonable economic incentives for relevant suppliers to secure that the domestic

customer supply security standards are satisfied as respects the availability of gas to their domestic customers.

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

Forcing a User to supply gas to an Interruptible Supply Meter Point against the terms of the contract it entered into may result in the User being unable to balance its supplies and demands leading to an Operational Balancing Requirement.

b) development and capital cost and operating cost implications:

The Proposal may lead to an increase in operating costs to the extent of the cost of any additional Operating Balancing Requirement.

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 any additional Operating Balancing Requirement would be met through the existing Balancing Neutrality Charges.

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

Transco is not aware of any such consequences.

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

By potentially increasing the Operational Balancing Requirement the Proposal would increase Transco's exposure to its residual balancing incentive.

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

Where the Proposal to be implemented a User holding a legacy BG Long Term Interruptible gas supply contract may need to adapt its systems to enable it to identify the consumers with these contracts and adjust its interruption management systems appropriately.

7. The implications of implementing the Modification Proposal for Users

Implementing the Proposal would attempt to place a Network Code restriction on a User's contractually agreed rights to require the end consumer to interrupt its offtake of gas on Days requested by the User.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

The Proposal seeks to prevent a User who holds a legacy BG Long Term Interruptible gas supply contract from requiring end users to interrupt their offtake of gas under certain defined circumstances, as detailed in the Proposal, by overruling terms within those contracts. As such, during these circumstances, end consumers would be able to continue to offtake gas under the remaining terms and conditions of the above contracts.

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

The Proposal, if implemented would introduce a Network Code contractual requirement which prevented Users who hold legacy BG Long Term Interruptible gas supply contracts from exercising the interruption terms within these contracts under certain conditions as set out in the Proposal.

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

Advantages:

- The Proposal seeks to enable end consumers to benefit from offtaking gas against existing legacy BG Long Term Interruptible gas supply contracts despite being subject to "shipper interruption" against those contracts.

Disadvantages:

- Implementation of the Proposal may lead to an increased Operational Balancing Requirement.
- The Proposal, if implemented, would undermine Users' and end consumers' flexibility to enter into commercial contracts with "interruption" terms that are greater than the minimum required by Transco to support the safe, efficient and economical operation of the System.
- Implementation of the Proposal this winter may result in the User's who hold these agreements being unable to cover their "firm" gas supply commitments thus exposing them to imbalance cashout.

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

Representation received from	Slant
Teesside Power Limited (TPL)	Against
RWE Innogy (Inn)	Against
ConnocoPhillips (UK) Limited (CPL)	Against
Scottish and Southern Energy Supply Ltd (SSE)	For
Edf Energy Plc (EDF)	Against
Scottish Power (SP)	Against
Total Gas and Power Limited (Total)	Against
British Gas Trading Limited (BGT)	Against
Entergy-Koch Trading Limited (ENT)	Against

Powergen (PGEN)

Against

Appropriateness of addressing the issue within the Network Code.

CP, BGT, Inn, PGEN, ENT and SP considered that the Proposal is outside the scope of the Network Code. CP stated that as the Proposal sort to "enhance security of supply through a particular shipper interruption contract, the proposal is beyond the Network Code's remit" and "causes an 'ultra vires' to the Network Code".

Inn considered "it wholly inappropriate to raise Network Code modifications to address concerns which are clearly contractual issues between counterparties" and Total believes that the Proposal undermines Users' interruption rights.

SSE stated that "our proposal is quite clear in specifying concerns regarding the use of specific shipper interruption rights", and "To the extent that these specific shipper interruption rights impact on Transco interruption rights, we believe they are legitimate issues for the Network Code.

EDF stated "we believe that if interruptible end users wish to protect themselves from non-Transco Interruption then they could re-negotiate their Long-Term Interruptible (LTI) contracts to deliver gas at the National Balancing Point"

BGT stated "the Modification Proposal is neither within the scope of the Network Code nor does it facilitate the Transporter's relevant objectives", and that they were "extremely disappointed that such a clearly irrelevant and obviously inappropriate Modification Proposal has been allowed to proceed to this stage [including the designation of Urgent status] and are of the view that it should be rejected without any further resource being wasted by Shippers, Transco or Ofgem."

Transco's response:

Transco agrees with the view held by the majority of respondents that the Proposal relates the conditions within a commercial contract and is therefore outside the vires of the Network Code.

Network Code, Section G 6.2.4, requires that a Registered User at an Interruptible Supply Point represents that the "contract or contracts of supply to the consumer, oblige the consumer to give effect to Interruption". For the purposes of the Network Code "Interruption" at a Supply Point means interruption on Transco's instruction. Nothing within the Network Code limits other contractual terms which may include for other types of interruption including that requested by the Registered User for its own commercial reasons. Transco considers that the Network Code should not unnecessarily dictate the content of commercial contracts between Users and consumers. Transco believes that the BG Long Term Interruptible gas supply contracts do meet the requirements of Network Code in that they make provision for Interruption at the offtake and the responsibility for ensuring compliance with an Interruption request rest with the Register User(s) at that Offtake. Users are incentivised through failure to Interrupt charges to ensure that they are able, through contract terms agreed, to comply with an Interruption request.

Transco does not consider that commercial gas supply contract clauses which allow for additional "shipper interruption" over and above that required to meet the User's Network Code obligations have an adverse impact on Transco Interruption rights.

Discrimination against Offtakes with Firm gas supply contracts.

TPL, PGEN, ENT and Total considered that the Proposal was discriminatory. TPL stated that "Acceptance of the proposal would lead to severe distortions in the market and would unfairly prejudice those parties who have paid for secure and robust supply arrangements", and, "the proposal would provide an effective subsidy to all generators who have not been prepared to pay the price of security."

Total stated that the Proposal would, if implemented, create "a disturbing precedent whereby a two-tier interruption regime is created that effectively allows an interruptible site to be guaranteed a firm service over the electricity peak whilst paying the interruptible transportation discount. This would be unfair and discriminatory towards those CCGTs paying firm charges and other interruptible sites whose probability of interruption would no doubt increase". PGen stated "This proposal could undermine arrangements previously made by other generators, who have made commercial decisions, such as whether to opt for firm or interruptible gas supplies and whether to provide back up".

ENT stated that "this proposal introduces discriminatory treatment into the Network Code; as it rewards power producers that have taken the advantages of interruptible supply, yet now face lower risks of interruption. Other power producers that have decided to pay for firm connections or to make provisions for back up supplies will be held at a competitive disadvantage."

Transco response:

The Proposal seeks to prevent "shipper interruption under legacy BG Long Term Interruptible gas supply agreements" under various circumstances suggesting that this will secure generation output at times of "recognised stress" and "maximise" Transco's options for interruption. Transco is concerned that this Proposal aims to use the Network Code in an attempt to overrule existing commercial contract terms freely entered into by the parties to the contract and discriminate in favour of both power generation loads on the System and, within this sub-group, only those power generation loads that are supplied under legacy BG LTIs.

The Proposal does not effect Transco's ability to call for Interruption at the Supply Meter Point and therefore the advantages gained within the Network Code for having "Firm" transportation status are also unaffected. Transco is concerned, however, that the Proposal does appear to seek to discriminate between specific CCGT Supply Points and other Supply Points on the System. To this extent the Proposal would be at odds with the relevant objective of promoting competition between shippers and between suppliers.

Effect on Markets and Price Signals.

TPL stated that "the proposal would lead to severe distortions in the market" and ENT stated that it "would be detrimental to the competitive market." TPL also stated that it relied on market price signals to provide a value for its contractual and infrastructure costs and that the Proposal would, if implemented, "reduce and potentially remove these pricing signals."

Inn stated that Transco's Winter Operations Report and the recent JESS report published by Ofgem and the DTI "suggests that the market is working as it would be expected to" and that the Proposal risked "creating significant distortion and commercial advantage to certain market participants."

EDF "does not believe that this modification will give the correct signals to the market and seeks to further assist interruptible sites who already enjoy benefits from reduced exit capacity charges."

Transco's response:

Transco considers that the Proposal, if implemented, would send a signal to the commercial gas supply contracting market that agreed contractual terms could be undermined by changes to the Network Code. It could also distort market price signals in the energy markets as commercially interrupted CCGTs would be released from their "shipper" contractual commitments at the time when the highest price signals are likely to be set. In addition, to the extent that the price per unit of energy supplied within the legacy BG Long Term Interruptible supply contracts factor in the User's ability to secure additional commercial interruption at times of high market prices, Transco can understand how releasing the consumer from only one part of the contract without allowing the other party to amend other contractual conditions in mitigation may lead to distortions in the market place.

Effect on Security of Supply and Transco Residual Balancing Role.

Inn suggested that "Placing restrictions on a shipper's ability to interrupt which conflict with entitlements prevailing in their commercial supply contracts, might compromise security of supply in gas. Commercial interruption may form an integral part of how a shipper plans to satisfy its firm load requirements. As the consequences of de-energisation within gas are significantly more difficult to manage than in electricity, this would be a most unwelcome situation were it to arise."

EDF stated "that if interruption under LTIs cannot be exercised then more storage may be used which could increase the probability of the Top-Up Manager actions, especially due to the increased Monitor Levels required for winter 2003. EDF Energy believe that this Modification Proposal will have a detrimental impact on the costs that Shippers may be required to pay from Top-Up Manager actions."

Total commented that "In the event of a peak gas day the proposal limits the ability of shippers to provide a demand-side response and relies solely upon NGT to interrupt the CCGT. This does not appear to be consistent with the stated aim of the proposal i.e. to facilitate security of supply nor with NGT's residual balancing role."

ENT stated that "The proposal purports to improve security of supply by restricting the commercial interruption rights of some shippers at specific sites under specific contracts. This appears discriminatory, and will not increase the amount of interruption that is available to Transco as it is attacking commercial interruption rights."

Transco's response:

The Modification Proposal suggests that more robust arrangements are required to "maximise Transco's ability to... manage constraints.... and maintain security of supply." Transco considers that the current arrangements in regard to Interruption are sufficiently robust in this regard. In a situation where Transco requires Interruption at a Supply Point in order to maintain security of supply then Network Code requires the Registered User to secure that the requirement is complied with (Section G 6.7.2 (a)). Given this and Shipper Licence Conditions it is for the User to make suitable arrangements within its supply contracts to ensure that the Interruption requirement is met.

Given a situation where the System is experiencing high demands and Transco determines that it requires Interruption at a Supply Meter Point at which the Registered User has already exercised a commercial entitlement for interruption then Transco would instruct the User to commence Interruption under the terms of the Network Code thus replacing "shipper interruption" with Transco Interruption.

Transco agrees that the Proposal, if implemented, may have an adverse effect on a User's ability to meet its supply obligations. To the extent that this leads to a shortage of gas on the System Transco, as the residual System Balancer, would seek to take Operational Balancing actions. However, if Interruption at the Supply Meter Point was required to maintain security of supply then Transco would call for Interruption at the site which would supplement any "shipper interruption" to ensure that the offtake ceased taking gas.

Transco agrees that the Proposal could adversely effect Users' ability to manage their portfolio of supplies and demands. The Proposal seeks to force the User holding the legacy BG Long Term Interruptible supply contracts to continue to supply gas to the offtake at times when the User would expect to be able to suspend such deliveries resulting in the User having a more negative imbalance position. Depending on how the User would seek to respond to this position the Proposal could lead to storage depletion and/or effect market prices.

In establishing the storage monitor levels for this winter Transco has assumed that NTS connected interruptible loads will not be supported by the use of storage. To the extent that implementation of this Proposal would result in these loads being supported by additional storage withdrawals there is more likelihood of an infringement of the existing storage monitor levels.

Interactions between gas and electricity regimes.

Inn stated "This could be seen as extending the scope... of the Network Code ... in order to enable NGC to manage constraints and system imbalances in the electricity market. Once again we regard this as wholly inappropriate."

Whilst SP agreed "that consideration should be given to optimising arrangements across the electricity and gas regimes. We do not agree that "maximising output" from CCGTs on interruptible contracts is the best way to do this, nor that NGT should have the power to effect this if so desired. We believe that what the proposer calls "the interests of electricity and gas customers" are served primarily by ensuring the safety of the system, and security of supply. One of the ways in which this is done is to use the existing interruptible arrangements."

Transco response:

The Proposal relates to "shipper interruption" only. As such it does not effect Transco's current ability to manage constraints on its System. Transco will continue to manage system imbalances and constraints in accordance with its Licence obligations.

Alternative options.

Total stated that "it is not clear why the proposer does not use the Shared Supply Meter Point (SSMP) arrangements that currently exist within the Network Code to ensure an uninterrupted supply from an alternative shipper."

Transco response:

Shared Supply Meter Point arrangements are only available for those Supply Points which comply with the conditions set out in Network Code Section G 1.7. Transco believes that many of the Supply Meter Points covered by the legacy BG LTIs are also Shared Supply Meter Points. This status allows more than one User to be registered at the Supply Meter Point. As a result it allows the consumer at the offtake the flexibility to source gas from an alternative User in the event that "shipper interruption" is called. Where Transco requires such offtakes to interrupt such Interruption applies to all interruptible Users at the Supply Meter Point thus preventing all interruptible supplies to the offtake.

Modification Proposal 0657 Partial 'Volume' Interruption Service seeks to introduce a facility, for Supply Meter Points with Partial Interruption status, whereby the Supply Meter Point's aggregate daily offtake would be limited to the daily offtake quantity implied by the uninterrupted Tranches subject to a Supply Meter Point maximum hourly rate as specified in the interruption notice. This Proposal (0657) would enhance current Partial Interruption arrangements so that when loads can be permitted to offtake gas at rates higher than those available under the current partial interruption service, they should be allowed to do so. This Proposal (0567), if implemented and coupled with the existing Shared Supply Meter Point provisions, may meet Scottish and Southern Energy plc's requirements for additional flexibility where Transco is able to provide this flexibility without compromising the safe, efficient and economic operation of the System.

Relevant Objectives and the provisions of Transco's Gas Transporter's Licence.

BGT stated that if "the intention is to restrict Transco's interruption rights :-

" further specific provisions are proposed which would restrict the ability to interrupt gas supplies to Supply Points relating to CCGT power stations...."

then it cannot possibly improve the provisions of the Network Code, pursuant to the relevant objectives of Transco's Gas Transporter's Licence.

Specifically:-

to " ... develop and maintain an efficient and economical pipeline system for the conveyance of gas ... " and to maintain " ... The gas security standard in the licensees pipe-line system (taking into account of such operational measures as are available to them) ".

Indeed in this latter respect, implementation of this Modification Proposal would severely restrict the Transporters ability to comply with their obligation."

Transco's response:

Transco does not interpret the sections of the Proposal referred to in the BGT response as implying that Transco's rights to call for Interruption at Supply Meter Points should be restricted. The Proposal is specific to "shipper interruption" and Transco therefore believes that the "specific provisions" are in relation to a User's rights to interrupt on commercial grounds only. To the extent that this is the case then Transco's ability to comply with its licence obligations in regard to the gas security standard would not be effected by the implementation of this Proposal.

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

Transco is not aware of any such requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is not aware of any such requirement.

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

None

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

No implementation timetable is necessary given Transco's recommendations

16. Recommendation concerning the implementation of the Modification Proposal

Transco considers that the Proposal does not fall within the vires of the Network Code, would not facilitate competition between relevant shippers or between relevant suppliers and, if implemented may lead to an increase in the Operational Balancing Requirement. As result Transco do not recommend implementation of this Proposal.

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 not to modify the Network Code and Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Signed for and on behalf of Transco.

Signature:

Tim Davis

UK Transmission

Date: