

OFGEM DECISION LETTER No. 0495
"LNG Overrun Regime for Constrained Storage Renominations"
Version 1.0

Direct Dial: 020 7901 7374

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Transco, Shippers and Other Interested Parties

Your Ref:
Our Ref : Net/Cod/Mod/495

Dear Colleague,

Modification Proposal 495 – “LNG Overrun Regime for Constrained Storage Renominations”

Ofgem has considered the issues raised in modification proposal 472 “*LNG Overrun Regime for Constrained Storage Renominations*” 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 in Standard Condition 7 of Transco’s gas transporters licence. 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

Under Standard Condition 13(1) of its gas transporters licence, Transco is required to plan and develop its pipeline system to meet the 1- in-20 security standard. That is, Transco must ensure that its pipeline system can meet the peak aggregate daily demand that is only likely to be exceeded once in every 20 years taking into account weather conditions over at least the previous fifty years. Transco complies with its requirement by taking a combination of actions, including investment in pipeline capacity, the use of interruptible transportation contracts and the use of gas storage facilities.

Transco LNG is a ring-fenced business unit within Transco. Under the Network Code, Transco secures the transmission support it requires from LNG facilities by declaring a facility as “constrained”. This means that storage users who book capacity at a ‘Constrained LNG (CLNG)’ site are required to maintain specified minimum inventories of gas in store throughout the winter period and that Transco has the right to use all, or part, of their storage holdings at the site as if it were its own when flow at particular points on the network exceeds specified levels. When Transco dictates the usage of storage holdings in this way it is referred to as ‘constraining on’.

In ‘constraining on’ gas in this manner, Transco might be placing a User in a situation where the gas flow attributed to them is in excess of their existing deliverability capacity booking at the relevant storage facility. That is, Transco’s constraining-on actions may cause a storage user to overrun. Currently in these circumstances neither the user nor Transco pay overrun charges (the relevant charge is set at zero).

At present, when Transco constrains-on an LNG facility, storage users are not allowed to renominate their own usage of the facility, even if that would not result in a nomination level below that required by Transco.

The modification proposal

Network Code modification proposal 495 proposes that when Transco is constraining on an LNG facility, Transco's system operation department should make an internal transfer to Transco LNG if any deliverability overrun charges are consequently incurred. The modification also proposes that LNG customers should be allowed to reduce their LNG nominations while an LNG facility is constrained on by Transco to maintain system security, providing the reduction does not bring the resulting level of nominations below the constrained on quantity required by Transco.

Respondents' views

Two representations were received in response to this modification proposal. Both respondents supported the proposed modification.

One respondent believed that it was inappropriate for shippers to incur overrun charges where they had no control over Transco's use of the LNG facilities, even if they had made sufficient bookings to meet their own requirements. Another respondent stated its view that costs should be targeted at those parties who incur them.

Transco agreed that users should not be exposed to overrun charges when Transco overruns at an LNG facility that is constrained on, and noted that overruns in this situation currently incur a zero charge.

Ofgem's view

Ofgem believes that this modification better facilitates the achievement of Transco's relevant objectives under Standard Condition 9 of its gas transporters licence. Ofgem has noted that the modification has received broad support at the Planning and Security workstream.

Ofgem believes that the proposal better facilitates the efficient and economic operation of Transco's system by providing better incentives on Transco to decide when it is best to use constrained LNG rather than other measures, e.g. interruption of supply, to address locational system constraints, as Transco will incur the costs of overrunning at LNG facilities. The better incentives on Transco will also better facilitate the efficient discharge of its obligations under its gas transporters licence.

Ofgem believes that the proposal will also better facilitate the securing of effective competition between relevant shippers by allowing shippers to re-nominate when Transco has constrained on an LNG facility, providing that the resulting nomination is not below the constrained on volume required by Transco. Shippers will be able to use this additional flexibility to decide how best to more efficiently balance their own inputs and offtakes to Transco's system. More efficient balancing by shippers will also better facilitate the efficient and economic operation of Transco's system.

Ofgem's decision

Ofgem has decided to direct Transco to implement this modification. We believe that this would better facilitate the relevant objectives in Standard Condition 9 of Transco's gas transporter's licence.

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,

Paul Smith
Head of Market Surveillance