

Final Modification Report
Modification Reference Number 0307
Additional Measures to Cater for Terminal Constraints

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:

Further to discussions of this Proposal at the Capacity Workstream in January and the Modification Panel, the proposal has been amended and now reads as follows;

This Proposal would apply the principles of Modifications 0265a, 0277 and 0271 on days where demand at D-1 (estimated for the purposes of the Daily Capacity Services) exceeds the Available Physical Capacity.

Where estimated demand exceeds Available Physical Capacity at a Terminal, Transco would issue a Restricted Capacity Factor to scale back Users Available Capacity. On days where capacity is restricted, overrun charges would apply to entry allocations in excess of Restricted Capacity entitlements and not Available Capacity entitlements.

This Proposal would allow Secondary Capacity to be made available at terminals where a Restricted Capacity Factor has been issued (as Modification 0308 for St. Fergus), which was not offered under Modification 0271.

This Proposal would supersede Modification 0308 and would be expected to apply until a BC99 solution is introduced.

The Proposal would introduce measures to control capacity rights on days where demand exceeds Available Physical Capacity but would not affect the present Network Code regime on other days.

2. Transco's opinion:

Transco is of the view that this Proposal provides one mechanism to allocate capacity entitlements on days where demand for Entry Capacity exceeds physical availability. This should reduce the number of instances where Flexibility action is required to alleviate constraints and hence reduce the level of smeared costs arising from such actions.

Transco recognises the limitations of the approach described within this proposal but believes that this is an appropriate interim step to reduce costs in advance of an alternative "Summer solution" and the longer term regime developed within the RGTA.

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

Implementation of this proposal would be expected to reduce the neutrality costs to the industry associated with constraints. This will help maintain effective competition between Shippers by reducing the financial impact of neutrality costs.

The measures will provide a continued incentive for Shippers to nominate within the available physical capacity and will maximise availability of secondary capacity, therefore promoting an efficient and economic use of all available capacity.

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

a) **implications for the operation of the System:**

Implementation of this proposal should result in delivery nominations at terminals being kept within physical NTS Capacity on a day, and therefore there will be a reduction in the requirement for flexibility system sells at terminals.

b) **development and capital cost and operating cost implications:**

There are no development, capital cost or operating cost implications known.

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:**

Not applicable.

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

No consequences known.

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:**

The Network Code contains different rules for the treatment of entry capacity at St. Fergus than applies at other terminals. This Modification will ensure consistency in contractual risk.

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

As the Proposal is largely to extend current Network Code provisions, no further development implications for the computer systems of Transco are expected.

Transco is not aware of any development implications for Users.

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

The Proposal is largely an extension of the Network Code provisions introduced by Modification 0308. This Proposal would extend these provisions to all terminals if capacity restrictions occur, and also alter the day ahead trigger of a Restricted Capacity day to ensure that capacity rights are not unduly scaled back.

Users may need to modify their nomination processes to monitor whether a terminal has been defined as restricted or not. However, implementation of the proposal should continue to prevent excessive levels of neutrality charges and provide a mechanism for allocating capacity rights on days of restrictions.

As requested by the Capacity Workstream, to aid analysis, a list of flexibility sells taken as a result of terminal constraints is provided :

Constraint sell actions have been taken at both St. Fergus and Barrow since 1 October 1998 on seven occasions.

Action Gas Day	Energy (kWh)	Volume (mcm)	Reason
15.11.98	11,876,362	1.14	Pressure
21.11.98	23,178,650	2.22	Pressure
22.11.98	98,348,022	9.4	Pressure
23.11.98	9,008,264	0.86	Pressure
29.11.98	27,772,616	2.66	Pressure
02.12.98	11,205,005	1.07	Pressure
03.12.98	35,969,466	3.44	Pressure

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:**

As the Proposal is largely to extend current Network Code provisions to other terminals on days of capacity restrictions, no additional implications are anticipated for terminal operators, suppliers, producers or any Non-Network Code Party.

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:**

Transco is not aware of any consequences.

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

Advantages

Provides a mechanism, consistent across terminals, for sharing out capacity rights on days where demand is higher than available capacity and should reduce neutrality costs which would have arisen as a result of Flexibility actions to manage constraints on these days.

The proposal will only restrict Entry Capacity when anticipated delivery nominations are more than physical capacity availability. This will avoid an issue inherent in Modification 0308, whereby scaling back of Entry Capacity occurs on all days where booked Entry Capacity is more than capacity availability, which can result in unnecessary scaling back, with potential adverse implications on Shippers who wish to flow up to their booked Capacity levels.

The risk of negative priced flexibility prices will be removed.

Cash out prices should not be unduly influenced.

Provides greater certainty of gas flows and capacity rights.

Disincentivises nominations above Available Restricted Capacity.

Maximises the availability of capacity on days of restrictions by allowing Secondary Capacity to be made available on days where capacity is restricted.

Disadvantages

Artificially restricts market prices for flexibility bids.

Administrative method of allocating capacity rights.

Potentially causes Shipper issues with take or pay contracts above Available Restricted Capacity.

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

Representations were received on the draft Modification Report from **British Gas Trading, Powergen, Scottish and Southern Energy and BP Amoco**. Of these, three respondents were generally against its implementation, with only **Powergen** expressing some support providing the end date of 30 September 1999 for the expiry of the rules remains. Some support was expressed by respondents for certain elements of the proposal.

British Gas Trading is not in favour of amending the capacity regime in advance of the proposals to be developed from the BC99 process. **Scottish and Southern Energy** noted that Transco will be presenting a draft modification proposal, within the context of BC99, addressing Transco's summer maintenance programme and that the outcome of this may change their views on Modification 0307.

British Gas Trading and **Scottish and Southern Energy** oppose the modification as they consider the likelihood of other terminals being constrained to be low. Further to this, **British Gas Trading** does not accept that all terminals should be treated consistently during times of constraints and comments that the Network Code rules at St. Fergus have only been "distorted" due to the overrunning of Transco's construction programme. **PowerGen**, however, support the removal of arbitrary distinction in the rules between different terminals.

British Gas Trading expresses a view that the capacity rights of Shippers would be "diluted" under this proposal and that there is no corresponding measure to increase Transco liabilities in the event that capacity is scaled back. Further to this, **PowerGen** also considers that any proposal should detail how Shippers will be compensated for capacity scaled back and believe that this element should be agreed before the proposal is implemented, rather than agreed retrospectively.

British Gas Trading does however express support for two of the features of the proposal and suggest that a new modification proposal should be raised by Transco to incorporate these into the current regime applying at St. Fergus (under Modification 0308). These are :

- i) the proposal to amend the trigger for "scaling back" so that it only takes place where estimated demand is in excess of physical capacity. PowerGen also express support for this element of the proposal.
- ii) the proposal to allow Secondary Capacity to be made available where a Restricted Capacity Factor has been issued.

Powergen is opposed to the approach for handling constraints implemented by modifications 0271 et al and in particular objects to the continuation of this treatment of constraints. It sees the inclusion of a specific end date for this modification as a

requirement that will incentivise all parties to reach agreement on an adequate replacement.

Transco Response:

Having considered the representations made, Transco remains of the opinion that this modification will help to reduce the risk of excessive neutrality costs associated with constraints, and supports its implementation as an interim step prior to the implementation of an alternative regime being developed within the RGTA.

Transco believes that Modification 0308 provides an effective mechanism to mitigate the risks of constraint costs, and therefore there would appear to be merit in extending the insurance that this provides to all terminals, which Modification 0307 enables.

Transco sees a benefit in introducing this modification prior to the RGTA proposals in order to minimise the likelihood of further constraint costs and sees no advantage in prolonging the absence of such a mechanism. Further to this, Transco believes that whilst constraints at St. Fergus during 1998 were in part caused by Transco's maintenance programme, a significant factor was shippers making gas flow nominations in supply patterns not previously experienced. This could also occur at other terminals. The present rules allow inconsistent treatment of capacity allocation across the terminals, and this modification will remove this inconsistency and avoid the need for retrospective or urgent action should problems arise.

In respect of any liabilities on Transco, this modification addresses the actions during periods of constraints and the costs involved. The issue of liabilities during terminal constraints is being considered separately within Modification 0287.

Regarding the end date of modification 0307, as this modification is intended to operate in parallel to modification 0308 which expires on 30 September 1999, Transco proposes that the same end date should apply to modification 0307.

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

Transco does not believe this proposal is necessary to facilitate compliance with either safety or other 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:

Transco does not believe that implementation is required as a result of a methodology change.

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

Implementation of this proposal will be done manually. A Programme of works is not required.

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

Subject to Ofgas' final decision on the proposal, Transco recommends implementation should take place with effect from one month after acceptance is received from Ofgas.

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommends that, pending a RGTA solution, this Proposal is implemented as soon as possible in order to provide a mechanism for allocating capacity rights on days where shipper requirements for entering gas exceed physical capabilities and to ensure that the neutrality costs associated with such days are limited.

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;**

TRANSITION DOCUMENT PART II, PARAGRAPH 10

Amend paragraph 10.1(a):

“where on a Day in relation to which this paragraph 10 applies, the Capacity Factor in respect of an Aggregate System Entry Point is less than one (1), the Aggregate System Entry Point shall be a “Restricted System Entry Point”,

Amend paragraph 10.1(b):

“the **Capacity Factor**” in relation to an Aggregate System Entry Point is:

- (i) ...will be able to accept delivery during the Gas Flow Day at such Aggregate System Entry Point; divided by
- (ii) ...which Users are registered as holding at such Aggregate System Entry Point.”

Amend paragraph 10.1(c):

“...multiplied by the Capacity Factor for that Day.”

Amend table:

<u>Aggregate System Entry Point</u>	<u>Relevant Multiplier</u>
St Fergus	8
<u>Teesside</u>	<u>8</u>
<u>Theddlethorpe</u>	<u>8</u>
<u>Easington</u>	<u>8</u>
<u>Bacton</u>	<u>8</u>
<u>Barrow</u>	<u>8</u>

Amend paragraph 10.2(a) (and renumber as paragraph 10.2):

“...specified in the table in paragraph 10.1 with effect from [].”

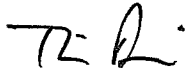
Delete paragraph 10.2(b).

Amend paragraph 10.3:

“...undertake calculation of the Capacity Factor...”

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 30/3/99

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 **0307**, version **1** dated **30/3/99** 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**.

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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