Draft Modification Report
Correction of Transco Errors on the RGTA Capacity System
Modification Reference Number 0436

Version 1.0

This Draft Modifcation Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3

1. The Modification Proposal

This proposal defines appropriate actions where Transco has made an error in the use or operation of the RGTA capacity system. This modification proposes that the following should be stated in the Network Code:

Should Transco in error commit to sell or buy capacity on the RGTA capacity system (whether due to system failures or human errors in placing or accepting bids/offers on that system) they will be obliged to correct such errors by means of counteracting transactions. In respect of the sale of too much capacity at an ASEP, Transco shall buy-back an equivalent amount of capacity within one hour of the error occurring and shall bear [20]% Ideally this value should be 100% so that holders of MSEC do not have to pick-up 80% of the cost of a Transco mistake. In practice, however, there is no straightforward way to distinguish legitimate capacity sales from capacity sales made in error. Thus the rate has been set at the current sharing factor for the capacity incentive. Nevertheless it is important that the possibility of the principle of Transco bearing all the costs should be enshrined in the Network Code – a method may be found to separate legitimate transactions from erroneous transactions in future.In respect of the buy-back of too much capacity at an ASEP, Transco shall sell an equivalent amount of capacity within one hour of the error occurring and shall only be entitled to receive [20]% Ideally this value would be set at 0%, but the value has been set at the current capacity incentive sharing factor.

2. Transco's Opinion

Transco does not support the application of compensation payments similar to that proposed for instances of failures arising from software programming. The elimination of the probability of such failure is subject to diminishing returns as the costs of preventative measures rise. The complete elimination of such failures is not a condition that could ever be guaranteed. That concept is acknowledged in the Network Code (U 7.1) where Transco and UK Link Users agree and acknowledge that it would not be economical for UK Link to be designed, built or operated so as to reduce the probability of its failure below a certain level, and consequently that such failures may occur. Further to this subject the Network Code (U 7.3) specifies that Transco will not be liable to any User or other UK Link User for the consequences of any failure, error or defect in or in the operation or performance of UK Link or any other part of the UK Link System.

Not withstanding Transco's ongoing endeavours to establish and operate robust systems it does accept that operator error can occur but maintains that such errors can be remedied by application of

the present Network Code arrangements. Those arrangements involve buy-back or sales of Daily System Entry Capacity.

Transco agrees with the proposer that there is no straightforward way to distinguish legitimate capacity sales from capacity sales made in error. That is particularly the case for capacity that is offered within the confines of an incentive scheme that is designed to encourage Transco to maximise the provision of entry capacity up to a point where incremental costs match incremental sales. In this case costs are generated by accepted shipper offers for buy-back capacity.

Under conditions where buy-back of entry capacity is required, for whatever reason, Transco does not believe that the least cost solution will be gained by constraining Transco to complete all transactions within a limited time frame. Limits of this kind can be particularly detrimental under illiquid market conditions, which Transco argue is demonstrated by recent activity on the capacity buy-back mechanism. Such conditions will result in higher costs accredited to the capacity incentive and the setting of higher overrun charges at any affected Aggregate System Entry Point (ASEP).

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

Transco does not believe that the Proposal would further the relevant objectives. In particular, the Proposal implies that systems reliability should be increased beyond a level that might be considered economically efficient.

The proposer may have intended to encourage a reduction in the frequency of events when Transco `fails to honour its entry capacity commitments and in that respect the intent of the Proposal was to tend towards a more efficient system. However, in addition to the potential systems costs identified above, the Proposal would potentially generate additional costs (through the capacity incentive and overrun charges) for both Transco and Users. Transco believe that those costs will be higher than could be gained if the present Network Code arrangements are applied. The potential for additional costs and uncertainties regarding their occurrence could tend to reduce efficiency.

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

a) implications for the operation of the System:

Transco may be required to develop operational guideline to determine what constitutes an error in the primary capacity allocation processes. No additional uncertainties are expected regarding the physical operation of the system.

b) development and capital cost and operating cost implications:

No implications are anticipated in this subject area.

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 such consequences have been identified

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 level of contractual risk for Transco is increased by this proposal to require Transco to fund part (or all) of the costs arising from any higher than planned primary release of entry capacity. The proposed buy-back obligation would be invoked without regard to the probability of transportation constraints occurring, which is taken as the present indicator of need for buy-back.

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

Transco has designed and developed the RGTA systems in accordance with time lines that have as far as possible been formulated to fit the urgent status accredited to these developments by all parties including, Users, Ofgem and Transco. If a greater burden of risk associated with systems development is now placed upon Transco then it is probable that more extensive validation processes will be required before future developments can “go live”. The probable outcome of such a development will be a manifested in longer lead times to build new or modify existing systems.

7. The implications of implementing the Modification Proposal for Users

If implemented, the Proposal will provide recompense for Users that may be affected by Transco's failure to honour its entry capacity commitments. The Proposal would increase costs to be counted against the capacity incentive scheme. Users that hold Monthly System Entry Capacity (MSEC) are liable for 80% of capacity incentive costs. User’s that overrun at ASEP’s at which, and on the day when, a mandatory buy-back as required by this proposal has been invoked, may face increased overrun charges.

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

A requirement to buy-back capacity regardless of the presence of transportation constraints could increase uncertainty and the perception of risk for all parties associated with the gas supply chain.

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 is in conflict with existing Network Code provisions concerning the service levels to be attained in software development and operation.

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

Advantages

The proposal should encourage Transco to more thoroughly test new developments prior to implementation.

The proposal should incentivise Transco to further procedures to mitigate the risk of errors.

The proposal would provide recompense for Users affected by Transco's failure to honour its Entry Capacity commitments.

Disadvantages

Systems development costs would increase

Systems development lead times would increase.

The circumstances when the proposed rules should be invoked are unclear

Capacity incentive costs could increase

Overrun charges could increase whenever the proposed rules are invoked.

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

Representations are now sought on this draft report. It should be noted that it was also the proposers intention to seek views on the appropriateness of the capacity incentive sharing factor to be applied when the proposed rule is invoked. The proposal had been offered as a provisional 20% of costs to Transco and 80% of costs to MSEC shippers, though the proposer considered that the parameters could be changed.

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

Not applicable

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 License

Not applicable

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

No direct programme of works is necessary to implement the Modification Proposal.

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

Transco does not recommend implementation of this proposal.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation of this proposal.

17. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: