

Our Ref: net/cod/mod/458
Email: mark.feather@ofgem.gov.uk
Direct Dial: 0207 901 7437

Transco, Shippers and Other Interested Parties

30 March 2001

Dear Colleague,

Urgent Modification Proposal 0458 'Deferment of Definite Gate Closure Times for Daily System Entry Capacity Bids'

Ofgem has carefully considered the issues raised in modification proposal 0458 '*Deferment of Definite Gate Closure Times for Daily System Entry Capacity Bids*'. Ofgem has decided to direct Transco to implement the modification because we believe that this proposal better facilitates the relevant objectives of Transco's Network Code. As a result of this decision, the introduction of a definite gate closure time for daily system entry capacity bids, which is currently scheduled to be introduced on 1 April 2001, will be deferred until 1 July 2001.

In this letter we set out the background to the modification proposal and give reasons for making our decision.

Background to the proposal

In September 1999, Transco conducted the first auctions for the sale of monthly entry capacity to its National Transmission System (NTS). The auctions provided for the allocation of monthly amounts of firm system entry capacity (MSEC) to successful bidders for a total period of six months from 1 October 1999 to 31 March 2000. The second series of auctions was held in March 2000 for the six month period of 1 April 2000 to 30 September 2000 and a third series was held in August 2000. The fourth series of auctions for the period 1 April 2001 to 30 September 2001 was completed in early March 2001.

In addition to the releasing of MSEC, Transco also releases a monthly interruptible system entry capacity product as well as daily firm and interruptible products. A within-day capacity market was introduced on 1 June 2000. This within-day

capacity mechanism allows Transco to release and buy-back firm capacity on the gas day. Transco sells all of the entry capacity products through auction processes.

The introduction of the within-day capacity market has generated a number of concerns from shippers that shipper errors in bidding may increase because of the increasing number and speed of transactions. These concerns have resulted in a number of discussions and Network Code modification proposals. These proposals have sought to develop mechanisms for preventing errors from occurring and addressing errors when they have occurred, including the resolution of disputes regarding payment of entry capacity invoices in the event of a manifest error.

Since these discussions commenced a number of modification proposals have been raised on the issue of shipper bidding errors. These proposals include modification proposal 0432 *'Definite Gate Closure Times for Daily System Entry Capacity'* which was approved by Ofgem on 31 January 2001.

Modification proposal 0432 was raised by Transco and provided for the implementation of fixed gate closure times for daily system entry capacity bids. In accepting this proposal Ofgem indicated that the introduction of a definite gate closure time should reduce the uncertainties faced by shippers in the daily entry capacity regime regarding the timing of Transco bid allocations. As such Ofgem believed that the proposal would provide shippers with a better opportunity to plan and review their bids for capacity prior to the fixed gate closure times thus reducing the potential for errors to occur.

Following Ofgem's decision, Transco submitted a request for urgent modification proposal 0458, *'Deferment of Definite Gate Closure Times for Daily System Entry Capacity Bids'* on 14 March 2001. The proposal provided for a 3 month deferral of the implementation of definite gate closure times for daily system entry capacity bids. Ofgem agreed that this modification merited urgent status. In its letter granting urgent status Ofgem expressed its concern regarding the timing of the modification proposal. In particular, Ofgem outlined its disappointment that a modification seeking a delay in the implementation of definite gate closure times had been raised at such a late stage, when the modification itself had been approved at least 2 months prior to its implementation.

The modification proposal

Modification proposal 0458 provides for a 3 month deferral of the implementation of definite gate closure times for daily system entry capacity bids. Transco submitted this modification following problems that have recently been encountered with the development of the Oracle software that supports the RGTA capacity system. In the light of these problems Transco considered that an introduction of the gate closure times facility by 1 April 2001 was unrealistic.

Respondents' Views

The majority of respondents supported the proposal but expressed serious reservations about the timing of the request for a new implementation date and Transco's ability to effectively manage the development and implementation of systems changes.

One respondent opposed the proposal and indicated that any delay in the implementation of fixed gate closure times would increase risks to shippers. The respondent indicated that it did not understand why the implementation of fixed gate closure times was dependent upon system changes.

Of those respondents who supported the implementation of this modification several expressed their concerns that the delay in system development had not been discussed with shippers. Others indicated that Transco had not provided any explanation for the delay in implementing the systems changes to enable the introduction of definite gate closure times. As a result, these respondents indicated that it was difficult to provide considered comments as to the reasonableness of the revised implementation date of 1 July 2001.

A number of respondents commented generally on Transco's performance in delivering systems changes and suggested that more robust project management procedures be incorporated to prevent similar problems occurring again in the future. One respondent suggested an internal audit be conducted of Transco's performance in the area of software development.

One respondent noted that although the delay had no implications for Transco, it might have implications for shippers' procedures. This respondent queried whether Transco had considered how to mitigate the additional risks on shippers resulting from the delay.

This respondent also noted that in the modification report for proposal 0432, Transco had stated that it had reviewed its IT systems in the light of the proposal and was confident that its underlying systems would continue to function effectively if this proposal was approved.

Another respondent suggested that Transco should consider providing compensation under its Standards of Service.

Transco's view

Transco expressed its regrets with regard to the delay in implementing definite gate closure times and recognised that until the measure was introduced shippers would face prolonged uncertainty in the within day entry capacity auctions.

Transco indicated that the implementation of RGTA4 systems changes (including those to support Modification 0432) are dependent on an upgrade of its Oracle production software and that a small number of problems had arisen relating to the necessary upgrade following user acceptance testing. Transco indicated that it only became aware of these problems in the latter stages of development and testing. As a result of these problems a delay in the implementation of Modification 0432 was necessary.

Transco indicated that it anticipated that the resolution of these problems would be completed by 1 July 2000. If the problems were resolved sooner then Transco would raise a further modification proposal to facilitate an earlier introduction of definite gate closure times.

Transco did not consider that there was any benefit in offering compensation to shippers for the delay as it believed that this measure would force up the costs and development times associated with system changes in order to mitigate this risk.

Transco responded to requests for better project management by indicating that it was taking measures to tighten the procedures for monitoring and reporting on the progress of systems development work.

Ofgem's views

In our decision letter dated 31 January 2001, Ofgem stated that it recognised that shippers faced some uncertainties within the daily entry capacity regime as to when Transco will commence an allocation of capacity bids at any particular point in time on or before the gas day. Ofgem believes that the uncertainties that exist within the current bidding system can potentially raise the probability of bidding errors occurring. As a result, Ofgem continues to believe that the introduction of a definite gate closure time should reduce these uncertainties and provide shippers with a better opportunity to plan and review their bids for capacity for the relevant hour thus reducing the potential for bidding errors to occur.

Ofgem recognises that if Transco are unable to implement the necessary systems changes to provide for fixed gate closures from 1 April, then a delay to the introduction of these changes is appropriate.

However Ofgem wishes to reiterate its concerns regarding the timing of this modification proposal and Transco's failure to identify and raise its systems problems with shippers at an earlier stage. In this regard, Ofgem welcomes Transco's assurances that it will tighten its systems development and project management procedures and expects Transco to ensure that any problems are brought to the attention of industry participants as early as possible to minimise any adverse impacts.

Ofgem's decision

Ofgem considers that a delay in the implementation of definite gate closure times from 1 April 2001 would better facilitate the efficient and economic operation of Transco's pipeline system. In particular, Ofgem believes that considerable inefficiencies could result if Transco were to implement a service prior to the completion of adequate systems development and testing.

Ofgem has therefore decided to consent to this modification, as we believe that it better facilitates the achievement of the relevant objectives as outlined in Standard Condition 7 of Transco's Gas Transporter's licence.

If you have any further queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Mark Feather
Head of RGTA