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Our Ref.
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Dear Julian

RE Modification Proposal 733 – Facilitation of substitutability between capacity and locational energy actions

Thank you for the opportunity to comment on this Modification Proposal.

We recognise that the primary purpose of this Modification Proposal is to align the current drafting of Network Code with the Transporter Licence, which has been amended in this respect.

We have concerns that this Modification Proposal further confuses the delineation between Energy and Capacity related actions. We are not convinced that there is complete substitutability between capacity and locational energy actions. Although there is a correlation between locational actions and constraints, it does not necessarily follow that a locational action would resolve a constraint in all cases. Therefore, the proposal to include all national buy/sell (NB01 and NS01) actions and to exclude all locational buy/sell (LB01 and LS01) actions from the cashout is blunt instrument that may not be relevant in all cases. This distinction must also be reflected in the System Management Principles Statement (SMPS) when amended.

We note that the Draft Modification Report details Ofgem's assertion that this "would incentivise Transco to make more efficient decisions when deciding which balancing tool to use". It will not always be clear that one form of action is more effective than another and it is therefore difficult to determine which measure should be taken in a particular circumstance in advance.

We would make the observation that the structure of the incentive regime is critical in this respect, as this should align Transco's incentives upon each of their actions with the minimisation of costs borne by the industry as a whole. This could be wider than simply the

costs of balancing. With this increased discretion there could be circumstances, particularly where caps and collars have been reached, where the incentive may not be in line with the most appropriate action.

Please contact me if you require any further information.

Yours sincerely,

Mike Young
Commercial Manager