

CODE MODIFICATION PROPOSAL No. 0009(0733)
"Facilitation of Substitutability Between Capacity and Locational Energy Actions"
Version 2.0

Date: 09/12/2004

Proposed Implementation Date: 01/04/2005

Urgency: Non-Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

Transco's Gas Transporter (GT) Licence ('the Licence') was modified on 1st April 2004 in relation to, amongst other things, the treatment of "locational actions" in its System Operator incentive schemes. More specifically, the costs and revenues associated with "locational actions" were included in Transco's Entry Capacity Buy Back Incentive rather than in its Residual Gas Balancing Incentive. This treatment was also applied to all Physical Renomination Incentive (PRI) Charges.

The Licence states that "locational actions" are "any action taken by [Transco] where the action was taken in respect of a specific location and would therefore be coded with a locational reason code on the OCM." For the purposes of clarity, it is important to note that not all Transco actions taken on the OCM locational market fall within this definition.

In preparation for the Licence changes, Transco raised Modification Proposal 0687 in March 2004 which sought to change the cashflows associated with locational actions (and all PRI Charges) so that they fed into Capacity Neutrality rather than into Balancing Neutrality. Modification Proposal 0687 was implemented on 1st September 2004.

In its explanatory notes accompanying the April 2004 modifications to the Licence, Ofgem stated that "... the locational OCM and entry capacity buy backs can both be used with similar purposes in mind." This introduced the concept of substitutability between capacity and locational energy actions.

In particular, Ofgem considered the scenario of a supply surplus in one location and a corresponding supply deficit in a different location, which could occur, for example, either side of a Transportation Constraint. Ofgem identified two possible means of resolving this situation. The first approach, using capacity management tools, would be to buy back firm entry capacity to restrict gas flows into the area with the supply surplus, which would in turn redirect gas downstream of the Transportation Constraint, simultaneously resolving the supply deficit. In interpreting this scenario, Transco has assumed that scaling any interruptible entry capacity would have taken place prior to the buy-back of firm entry capacity. The second approach identified by Ofgem would be to sell gas locationally to limit the gas flows into the area with the supply surplus and then buy locationally in the area with the supply deficit.

The Network Code allows the use of such mechanisms only in certain circumstances. The triggers for these are:

1. Scale back interruptible entry capacity where there is an Entry Capability Shortfall (Code section B2.9).
2. Buy back firm entry capacity where there is an Entry Capacity Shortfall (Code section B2.10).
3. Buy gas locationally in order to resolve a Localised Transportation Deficit (Code section D1.5).

Transco has analysed a number of scenarios and identified that the triggers described above do not allow for full substitutability between capacity and locational energy actions. For example it is not possible under the Network Code to sell gas at a specific location to resolve a supply surplus at that location. Similarly, it is not possible to take capacity actions at a specific location to resolve a supply deficit elsewhere.

Transco considers, therefore, that the Network Code is not consistent with the Licence as it does not allow Transco the operational flexibility to choose between capacity and locational energy actions in all circumstances. In order to allow full substitutability as the Licence envisages, Transco believes it is necessary to modify the Network Code.

In addition to modifying Network Code to provide the appropriate triggers, it is also important to consider the treatment of locational actions in the determination of cashout. Currently, when gas has been bought at a location to resolve a Localised Transportation Deficit (see trigger 3 above), the following is excluded from cashout determination (Code section F1.2.4):

- the locational buy action (Primary Excluded Action); and
- certain associated locational sell actions (Secondary Excluded Actions) depending on:
 - the volume of the secondary action in relation to the primary action; and
 - the time elapsed between taking the primary and secondary actions.

Under the proposals outlined above, locational sell actions taken as ‘primary’ actions would also need to be excluded from cashout, as would ‘secondary’ buy actions. Therefore, Transco believes it is also necessary to modify the Network Code to ensure consistent treatment of all locational actions in cashout.

This Modification Proposal has been raised in order to ensure consistency between the Network Code and the Licence, thereby better facilitating the relevant objective identified in Special Condition 9(1)(b) of that Licence, i.e. Transco will establish transportation arrangements that are consistent with the efficient discharge of the Licence.

Nature and Purpose of Proposal (including consequence of non implementation)

The implementation of this Modification Proposal would ensure that the Network Code is consistent with the Licence by allowing for the substitutability between capacity and locational energy actions.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

Failure to amend the Network Code would result in the Network Code remaining inconsistent with the Licence.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

Code Concerned, sections and paragraphs

Sections B, D & F

Proposer's Representative

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Proposer

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Signature

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