TRANSCO CONSULTATION REPORT ON PC81

Interruptible Transportation Charging

1. Introduction

Transco set out, in PC81, its proposal to modify the transportation charging methodology in respect of interruptible transportation charging. Transco stated its concern that interruptible transportation charging, as amended by PC74[1], may have undesired consequences in respect of shipper gas balancing responsibilities and with the intent of the NTS System Operator (SO) Exit Capacity Investment Incentive.

Transco set out its concern in the context of a system balancing climate of a tightening supply and demand position and beach gas reliability. Transco considers it desirable that the current transportation methodology be modified, as proposed, in advance of the forthcoming winter.

Transco published PC81, which proposed the removal of interruptible transportation credit's for interruption arising solely for the purpose of supply demand gas balancing from October 2004. This paper sets out Transco's final proposal having considered responses to PC81.

2. Transco's Initial Proposal

PC81 sought views on a change to the transportation charging methodology with the proposal to modify the qualification by which shippers to interruptible supply points would become eligible to receive credits arising from interruption beyond 15 days within a formula year[2]. Transco proposed to exclude interruption arising solely for the purposes of supply demand gas balancing from the count of qualifying interruptible days. Transco would continue to monitor the level of supply point interruption within the formula year running from 1st April to 31st March. Consequently, the supply point count of interruption would increment, as now, by one for each day of interruption where such interruption was for the purpose of managing a capacity constraint or for the purpose of testing a supply point's ability to interrupt.

Implementation was proposed for 1st October 2004 with any interruption resulting from supply demand gas balancing from that point forward being excluded from the count of qualifying interruption. The count of qualifying interruption would be used as the measure by which a supply point is deemed for payment purposes to have exceeded 15 days of interruption within a formula year. The transportation credit would continue to be equivalent to 1/15th of the annual NTS exit capacity and LDZ capacity charges avoided as a result of the interrupted supply point having interruptible rather than firm transportation rights.

Transco would continue to have the right to interrupt standard interruptible supply points for up to 45 days, and more in the case on TNI's[3], within each year. For the avoidance of doubt, interruption arising for supply demand purposes would continue to be included within the standard 45 day right, and more in the case of TNI's.

Transco recognised that development and implementation of Exit Capacity Reform may result in further changes to Transco's NTS SO exit capacity investment incentive and its demand management tools. However, we believed that the changes put forward in PC81 would be beneficial for the forthcoming winter and did not pre-empt the outcome of the review of Exit Capacity.

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[1] PC74 – Interruptible Transportation Charges April 2002.
[2] The formula year runs from 1st April to 31st March.
[3] TNI – A category of interruptible supply point defined within Transco's Netwrok Code that may be interrupted on more than 45 days within any gas year.

3. Summary of Responses

Comments and views were invited on the issues raised within this consultation paper.

Transco received ten responses to the consultation, which are summarised below:

Shippers & Suppliers	
British Gas Trading	BGT
EDF Energy plc	EDF
Npower Limited	NPO
Powergen UK plc	POW
Scottish & Southern Energy	SSE
Shell Gas Direct Limited	SGD
Total Gas & Power Limited	TGP
Other Interested Parties	
Association of Electricity Producers	AEP
Corus UK Ltd	COR
Terra Nitrogen (UK) Limited	TNL

Four respondents (BGT, NPO, SGD, AEP) expressed support for the removal of interruption arising from supply demand balancing from the basis for calculating interruptible transportation credits, however, three of these respondents (NPO, SGD, AEP) qualified their support. NPO provided its support only where the associated Network Code Modification Proposal (0696) was also implemented. SGD state that "this change should only be implemented in parallel with solutions that ensure that there is payment when Transco interrupts for supply and demand purposes. Without these, Transco will be given a free option to interrupt in these circumstances." AEP state " Our support is qualified as it is not clear that Transco will utilise gas on the OCM in advance of interruption for supply / demand purposes under all circumstances. We therefore suggest that these proposals are not implemented until this is clarified in the System Management Principles Statement, which currently appears to provide an opt out on the basis of economic and efficient operation."

Six respondents (EDF, POW, SSE, TGP, COR, TNL) were against a change to the transportation charging methodology as outlined within PC81. Generally, objection to the PC81 proposal arose because respondents perceived that, if implemented, Transco would have a free option over the use of interruption for supply demand balancing purposes and in preference to the use of the OCM for residual system balancing.

Detailed Responses:

Supply Demand Interruption and the NTS Exit Capacity Investment Incentive

Six respondents (BGT, EDF, NPO, SGD, SSE, AEP) agreed, in principle, with the PC81 proposal that interruption arising for supply demand gas balancing should not be included within the NTS Exit Capacity Investment Incentive arrangements. SGD noted that “This incentive is intended to ensure that Transco makes efficient trade-offs between investment in the networks and interruption etc. As network investment does not affect the requirement to interrupt for supply and demand purposes, its does appear that this payment is inappropriate.”

Two respondents (POW, COR) considered that the interruption credit arrangements should not be changed, but rather Transco’s ability to interrupt for supply demand balancing purposes be removed or amended. COR state that “in our opinion Transco interruptions should only be used for managing capacity constraints and not for the purposes of supply / demand balancing (except in cases bordering on gas emergency)”. POW considered that “If the obligation on Transco to interrupt for supply / demand reasons were removed, consumer interest in commercial interruption would naturally prosper”.

TGP “note that one of the primary drivers for the introduction of the incentive (NTS exit) was to spur Transco on to developing appropriate changes to the exit capacity regime in conjunction with the industry. We further note that those discussions have been subsumed into the DN Sale process and have yet to conclude in any concrete developments”.

TNL state that “It (the PC81 proposal) would remove an incentive for Transco to invest in a robust, flexible pipeline system”.

Transco’s Response

Transco notes that the majority of respondents have stated that they agree with the principle behind this proposal i.e. that interruption arising for supply demand balancing purposes should not be part of the NTS Exit Capacity Investment Incentive. It should be noted that the interruptible transportation credit mechanism was implemented, through PC74, solely to address GT Licence requirements contained within Transco’s SO NTS Exit Capacity Investment Incentive.

Transco does not agree with the respondent that stated this proposal would remove an incentive for Transco to invest in the gas transportation system. As we stated within PC81, interruption for capacity constraint purposes can be influenced by Transco’s investment strategy, but pipeline investment will not ease any requirement for interruption to balance supply and demand. This proposal protects the intent of the NTS Exit Capacity Investment Incentive.

We note comments relating to the removal of Transco’s access to interruption for supply demand balancing. However, this comment is beyond the scope of the current modification proposal and we believe that changes to, or removal of, this “back-stop” ability would require an amendment to Transco’s safety case. Transco notes that this issue is currently under discussion within the appropriate Network Code workstream in relation to Modification Proposal 0699.

Transco recognises that the ongoing debate to reform the exit capacity regime has yet to conclude. However, we do not consider that this proposal prejudices the outcome of that debate given the specific supply demand balancing context of the proposed modification. In light of our concerns expressed regarding the tightening supply demand position, we consider that there are benefits in bringing this proposal forward in advance of the forthcoming winter.

Supply Demand Balancing

Six respondents (AEP, POW, COR, EDF, SGD, SSE) expressed concern that removal of supply demand interruption from the NTS exit capacity incentive arrangements would effectively give Transco a “free option” over supply demand interruption. Five of these respondents (AEP, POW, COR, EDF, SSE) raised concerns over interaction between Transco’s use of supply demand interruption, where this was at zero cost to Transco, with the OCM. AEP called for Transco to clarify, within the System Management Principles Statement, that Transco would use gas on the OCM in advance of supply demand interruption. AEP noted that the energy balancing incentive does not encourage Transco to trade away from the market price, and that under the Statement, Transco could potentially opt out of OCM usage on economic and efficient operation grounds. EDF raised their concern that a Transco “free option” over supply demand interruption would distort the market and that appropriate costs would not be included in balancing neutrality.

SGD and SSE both suggested that Transco should bring forward proposals for the introduction of a compensation scheme for interruption arising for supply demand balancing purposes.

A number of respondents suggested the development of contractual arrangements to give Transco access to energy interruption.

Transco Response

Transco does not consider that changes to supply demand balancing arrangements fall within the scope of this transportation charging methodology modification proposal. However, we recognise the concerns of respondents and, although Transco has repeatedly stated in open forum that in principle it would utilise the OCM to its full extent in preference to supply demand interruption until such point that it felt that there were no more actions that would provide an appropriate physical response in an acceptable time period, it intends to bring forward an amendment to the System Management Principles Statement to provide further reassurances as to the interaction between its use of the OCM and interruption for the purpose of supply demand balancing. This is stated in more detail within the final modification report prepared for the related Network Code modification proposal 0696.

Shippers are responsible for primary gas balancing within Transco’s transportation system. Transco may act from a position of residual gas balancer where, in aggregate, shippers action, or inaction, result in the system being out of balance. Transco is of the opinion that interruption for supply demand balancing purposes is a primary balancing tool, and that where this is called by Transco then it is acting on behalf of the relevant shipper i.e. as a primary balancer. Accordingly, compensation for supply demand interruption should properly be funded through energy Balancing Neutrality. The most appropriate route to discover and then apportion the costs of these balancing actions is either between the shipper and end-user or via an arrangement which allows the end-user, via its shipper, to place its interruption into the energy balancing market. This position is consistent with Transco’s intent that balancing actions are conducted through market arrangements in order to ensure efficient system operation and prevent market distortionary impacts.

This proposal, if implemented, would, in Transco’s opinion, ensure that transportation charging arrangements do not hinder the appropriate development and operation of system / shipper gas balancing tools.

Interruptible Transportation Charge Arrangements and Commercial Interruption

Four respondents (EDF, COR, AEP, SSE) disagreed with Transco's opinion that interruptible transportation charging may have acted to deter gas consumers and shippers from entering into commercial interruption arrangements.

Transco Response

Transco is of the opinion that transportation arrangements should not discourage gas consumers and shippers from entering into commercial interruption arrangements. We find it difficult to understand how the present arrangements, by which an interruptible transportation credit is only made where interruption is called by Transco, could not be seen as an incentive to wait for Transco to call interruption, and potentially, in preference to any commercial interruption arrangements. Transco notes that no respondent has provided evidence to the contrary, indeed, NPO suggest gas customers may take a view that this modification proposal changes the commercial arrangement and suggests an implementation delay to April 2005 in order to factor into gas purchase decisions. Consequently, we remain of the view that current transportation arrangements may act as a disincentive to commercially contracted interruption arrangements.

State Reason for Interruption

BGT suggest that the reason for interruption should be stated at the time that interruption is called, it considered this would ensure transparency of actions.

Transco's Response

Transco agrees that the notice of interruption issued for Transco called interruption should clearly state the reason for which that interruption is being called. Transco notes that this IT functionality change was discussed with the industry through Network Code workstreams. Accordingly, as part of the IT functionality change required to implement PC81 / 0696, if not vetoed, Transco would amend the format of such notices in order to clearly identify the reason for interruption being called.

Implementation Date

BGT agreed that, if approved, the methodology modification should be implemented for 1st October 2004 and that interruption prior to 1st October 2004 should be valued on current transportation methodology basis.

NPO raised a concern that the proposal would reduce Transco's risk of making interruption payments and that this would change the commercial arrangements that end users have entered into on good faith. Because of this, NPO considered that PC81 should not be implemented until April 2005 in order to allow gas customers time to factor this into their future gas purchasing decisions.

Transco's Response

Transco believes that, if approved, the proposal should be implemented prior to the 2004/05 winter. Transco has set this proposal out in the context of a tightening supply demand position and a concern of beach gas reliability, consequently the objectives of this proposal would best be served by implementation prior to the forthcoming winter. It should be noted that Transco has been in active discussion with the industry in respect of this proposal, through the Network Code NT&T workstream, since April 2004.

4. Conclusion

Transco notes the view of most respondents that, in principle, interruption for supply demand balancing purposes should not form part of the interruptible transportation arrangements intended to address the NTS Exit Capacity Investment Incentive. We recognise the concern raised in respect of any interaction between Transco's use of supply demand interruption and the OCM. Consequently, Transco will seek to clarify such usage of gas balancing tools through an amendment to the System Management Principle Statement.

This final proposal is unchanged from PC81. We continue to believe this is consistent with the following relevant GT Licence objectives:

- Reflect developments within our transportation business by ensuring interruptible transportation credits do not discourage shippers from discharging their primary balancing role obligations, and this in a climate of a tightening supply and demand position;

- Ensure that our transportation charges reflect the costs we incur within our transportation business since any interruption costs arising from supply deficit balancing actions would, to the extent that the market allows, properly be contained within Balancing Neutrality.

5. Final Proposal

Transco therefore proposes:

- That only interruption resulting from the following events should increment the supply point interruption count for the purpose of determining the level of payment made by Transco to a shipper for each additional day of interruption over 15 days:

    - Interruption for the purpose of managing a capacity constraint;
    - Interruption for the purpose of testing a supply point's ability to interrupt.

- That the methodology change be implemented with effect from 1st October 2004, and that the count of interruption between 1st April 2004 and 30th September 2004 should not be re-appraised to take account of the proposed methodology.