



Shippers, Transco and Other Interested Parties

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17 December 2002

Dear Colleague,

Modification Proposal 0557 'Revision to Section O – System Planning'

Ofgem has carefully considered the issues raised in Modification Proposal 0557, 'Revision to Section O – System Planning'. Ofgem has decided to reject Transco's proposal because we do not believe that this proposal will better facilitate the relevant objectives of Transco's network code.

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

Background to the proposal

Every year Transco publishes the Base Plan Assumptions (BPA) document as part of its annual consultation into the future development of the gas transportation network. Section O of Transco's network code specifies that this document is to be published for consultation in October of each year.

The BPA

The Base Plan Assumptions (BPA) document sets out initial assumptions as to supply and demand in forthcoming years and requests information from a number of industry participants. As such, the BPA document includes (amongst other information):

- ◆ details of historic peak day demand;
- ◆ estimates of future 1-in-20 peak day demand¹ and seasonal normal annual demand;
- ◆ estimates of future maximum daily supply;

¹ The level of daily demand that is expected to be exceeded in one out of twenty winters.

- ◆ an estimate for the forthcoming year of the amount by which maximum daily supply falls short of 1-in-20 peak day demand;
- ◆ different assumptions (high, low and central) as to overall future growth in demand for gas; and
- ◆ the principal economic and other assumptions made by Transco in preparing such estimates as well as a reference date for the making of such estimations of demand.

Section O of Transco's network code also specifies a number of information requirements on shippers. Amongst other things these requirements specify that network code 'Users' shall provide to Transco estimates of future 1-in-20 peak day demand and seasonal normal annual demand at supply points of which the shipper is the 'Registered User' as well as estimates of availability of gas for supply.

The Ten Year Statement

Amended Standard Condition 25 of Transco's Gas Transporter's (GT) licence requires that it shall comply with a direction given by the Authority to prepare a statement publishing forecasts of:

- ◆ The use likely to be made of its pipeline system; and
- ◆ The likely developments of the system which Transco expects to be taken into account in determining the charges for making connections to the system and in pursuance of transportation arrangements.

These forecasts are determined for a period of 10 years commencing from 1 October in each year. Such forecasts should be sufficient to assist a person who is contemplating connection to Transco's system or entering into transportation arrangements with Transco. Transco fulfils this obligation through the publication of the Ten Year Statement (TYS).

In addition to the obligations contained within Transco's GT licence, Transco's network code provides that Transco shall prepare the YYS by 31 March in each year on the basis of information provided by shippers and through responses to the BPA. The network code requires that Transco publish additional information, including their estimates of the volumes of gas required for top-up reasons².

The proposal

The proposal would remove the requirement in the network code that Transco must publish the BPA document. In addition, Shippers would no longer be required to submit estimates of future gas demand, although they would continue to be required to provide estimates of supply availability.

² Transco uses top up gas for a range of purposes including national top up, where it is deemed that shippers have failed to provide sufficiently for demand during a severe winter, and constrained LNG top up where Transco specifies minimum inventory levels which must be kept in store by users who book capacity at LNG sites that Transco has designated as constrained sites.

Respondents' views

Five respondents commented on the modification proposal. Two respondents offered unconditional support, two gave qualified support and one opposed the proposal, primarily on the basis of the proposed legal drafting accompanying the modification proposal.

Most of the respondents offered support for removing the need for Transco to duplicate the publication of information contained within the TYS by also publishing the BPA document. However, some respondents specifically noted that their support was conditional on Transco continuing to publish all of the information in the BPA.

The respondent opposing the proposal argued that there should be no reduction in the amount of information that Transco is required to publish, but offered support for ending the duplication of publishing this information. This respondent highlighted that the modification proposal would remove the requirement that Transco publish the information contained in the BPA, arguing that it is only precedent that leads to the assumption that this information would be published in the TYS. As such the respondent indicated that the modification proposal reduces the amount of information provided to shippers and acts to undermine competition between shippers. The respondent stated that it does not see any reason for a reduction in the level of information that Transco, as monopoly gas transportation network owner and operator is required to provide to its customers.

The majority of respondents offered support for the removal of the requirement on shippers to provide demand estimates to Transco. One respondent specifically noted that large-user demand has the potential to impact upon system development, but that these users are unlikely to share their future plans with their shipper/supplier due to the annual nature of supply contracts. The respondent indicated that it seems sensible that Transco approach customers directly for information on large-user demand. One respondent raised concerns that shipper provided information could prove useful to Transco, in particular for Daily Metered (DM) Power Generation and that the proposal would therefore diminish Transco's abilities to anticipate future demand.

A number of respondents raised concerns with the proposed legal drafting accompanying the modification proposal. Some respondents opposed the removal of the requirement on Transco to publish the planning assumptions made about the future supply and demand for gas. One respondent also argued that there was a need to insert clauses reflecting the provision of potentially confidential information by shippers. This respondent also argued that the submission date for information to Transco should be no more than two months prior to publication.

Transco's views

Transco stated that the modification proposal would streamline and improve the annual planning consultation arrangements and would be consistent with the efficient discharge of its licence obligations and the economic and efficient

operation by Transco of its pipeline business. Transco also highlighted that there would be a reduced requirement on shippers to provide information.

In response to respondents' comments, Transco stated that it would ensure that the TYS continued to contain sufficient data as the basis for the following year's planning consultation process. Transco indicated that it did not intend to withhold supporting analysis including planning assumptions. As such Transco stated that it intends that the analysis previously published in the BPA would be included within the TYS. Transco stated that it has amended the legal text to reflect this.

Ofgem's views

Ofgem agrees with Transco and respondents that there is likely to be a large degree of duplication of information in both the TYS and the BPA documents and that this duplication is unnecessary. In this respect Ofgem agrees in principle with the proposal in so far as it seeks to reduce this degree of duplication.

However, Ofgem agrees with those respondents that raised concerns about removing the requirement on Transco to publish the BPA information without sufficient assurance that the information in the form that is currently provided will continue to be made available in the same degree of detail within the TYS.

Whilst Ofgem notes that Transco has indicated that it has amended the legal drafting to reflect the need to publish assumptions, Ofgem does not consider that either the proposal or the revised drafting reflects the need to ensure that the detailed assumptions continue to be published, if only within the TYS. In addition, Ofgem considers that relying on convention or previous practice that the BPA information is repeated in the TYS is an insufficient safeguard to ensure that the detailed assumptions continue to be made available.

As such, Ofgem does not consider that this proposal better facilitates the relevant objectives of Transco's network code as it creates a risk that information on Transco's assumptions that is currently released to the market is no longer made available. The removal of this information from the market may be detrimental to competition between shippers and suppliers.

The transition from planning to market signals

Ofgem notes that the gas industry has just completed a process of major reforms with respect to long term planning and investment at the various entry points to Transco's transmission network. This reform process has included the introduction of long-term entry capacity allocations as well as a long-term entry capacity investment incentive on Transco within its GT licence.

Ofgem considers that the introduction of long-term allocations of entry capacity rights combined with its entry capacity investment incentive should bring about substantial improvements in Transco's existing planning process. In particular, the market-based information received from the long term entry capacity allocations

and the subsequent trading of entry capacity rights should provide Transco with more reliable and robust signals to inform its investment decisions. Ofgem considers that these signals are likely to be more robust than those obtained through Transco's existing planning process where information used to derive Transco's forecasts is provided on a largely voluntary basis.

Over time Ofgem expects the entry capacity planning regime to evolve such that it is largely reliant on the signals from the long-term allocations and trading of entry capacity rights. Nevertheless Ofgem recognises that the industry is undergoing a process of transition from the current consultation based planning process to a more market based process. During this transitional process Ofgem considers that planning information from existing processes may still be needed to supplement market signals in assisting Transco to determine its investment requirements.

In this respect Ofgem considers that, in the context of the transition to long-term market based investment signals, shippers and customers should continue to have access to the BPA information in the same level of detail that is currently provided. Access to this information may be relevant to assisting shippers and customers informing their own commercial decisions.

Ofgem's decision

Ofgem has carefully considered the issues raised by this Modification Proposal. For the reasons outlined above Ofgem has decided to direct Transco not to implement this modification proposal because we do not consider that it would better facilitate the relevant objectives of Transco's network code, as contained in Amended Standard Condition 9 of Transco's GT licence.

If you have any 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 New Gas Trading Arrangements