

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0593
"Obligation on Transco to publish TFA data "
Version 2.0

Date: 18/10/2002

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Transco can use TFAs to restrict the flow of gas onto the system at entry points. Transco has stated (in operational forum meetings) that TFAs can be imposed either to manage transportation constraints (by restricting flow rates for all or part of the Gas Day) or to manage gas quality on the network (for example where gas being delivered does not meet Network Code specifications). Transco issues TFAs to Delivery Facility Operators not to shippers.

Transco has argued that the ability to deploy TFAs is an important safety measure that is only resorted to when pressure triggers are reached to avoid exceeding the maximum permitted operating pressure.

Under the current arrangements, Transco only notifies Users where a TFA has been issued through the operational summary on its website. Transco informs users the day after the TFA has been issued. Transco only confirms the Aggregate System Entry Point(s) at which a TFA was issued. Transco has also released more limited information in response to shipper queries at its operational forum meetings.

AEP accepts that Transco should have access to physical tools such as TFAs. TFAs have a role to play in ensuring the safe operation of the system, particularly over operational timescales when commercial tools to manage entry flows may not be effective.

However, shippers, customers and other system users should be able to understand Transco's use of TFAs to ensure that they are being used appropriately and not as an alternative to commercial tools (such as capacity buy backs) and in accordance with the Operational Guidelines and Transco's licence and statutory duties. Greater understanding of Transco's used of TFAs would also allow shippers, customers and users to consider changes to the commercial arrangements if the current commercial tools are not proving effective.

Users should also have access to information about TFAs as they may be entitled to compensation under Section I of the Network Code where a TFA is issued. To make this effective, Users must have sufficient information available to them to assess whether they are entitled to compensation. If Users do not have this information, they will not be in a position to claim compensation. If compensation cannot be claimed due to lack of the relevant information, this will undermine the current entry capacity arrangements. Shippers will not be able to purchase financially firm entry rights. Shippers will face the risk that rights can be removed through the issuing of a TFA without compensation being paid.

The current level of information provision ensures that Transco can use TFAs to avoid commercial tools (such as buybacks and capacity management agreements). Under Section I 3.7, compensation is determined by calculating the volume of firm rights that were affected

by the relevant TFA. This volume is determined as the difference between the quantity of gas that Transco is obliged to accept at the terminal (defined by the sum of all firm capacity held at the ASEP plus any unscaled interruptible rights held but less any capacity surrendered) and the rate in aggregate at which gas was accepted over the period of the constraint during which a flow rate restriction (TFA) applied. The current level of provision of Network Code information prevents shippers assessing whether they are entitled to compensation. Transco does not publish the flow rate restrictions imposed nor the duration of any flow rate restriction applied. Without this information, shippers cannot determine whether payment is due under Section I.

Understanding and monitoring Transco's use of TFAs is key to building confidence in the emerging secondary capacity market. It is also important in ensuring that entry capacity rights are genuinely financially firm. Where Transco has to apply a TFA for operational purposes, Users must be certain that they will have sufficient information to determine whether compensation is due.

Ofgem has accepted that shippers, the wider industry and customers have a valid role to play in monitoring Transco's performance under its incentives because it is customers who ultimately pay for the costs of Transco's system operation activities.

Publication of more data regarding TFAs will help to promote an active and liquid secondary capacity market in the interests of Transco, shippers and customers. A well-functioning secondary market will lower volatility in entry capacity prices, allow existing shippers and new entrants to hedge entry capacity price risk and assist Transco in managing the costs of entry capacity constraints. All of these benefits will ultimately lead to lower costs to shippers and lower prices for end consumers.

This modification should be granted urgent status because an absence of information that would allow shippers to claim compensation will have a significant impact on Transco and shippers. Transco has recently published data suggesting that over the gas year 2001/2, 55 TFAs were issued. Since 1 October 2003 Transco has issued 3 TFAs in 15 days (October 1 – Teesside, October 3 – Barrow and October 8 St Fergus. All of the TFAs that have been issued have been at terminals within the Northern Triangle. As Northern Triangle terminals have been constrained since the 1 October, with scale back of interruptible capacity and buy backs at St Fergus, shippers need to have access to TFA data quickly to monitor Transco and assess whether compensation is due. Given the costs of St Fergus buy backs to date and St Fergus secondary market prices (c6-9p/therm), the commercial impact on shippers and the market could be significant.

Nature of Proposal

Obligation to publish information and method of publication

Transco should be obliged to publish detailed information regarding any (and all) TFAs issued since 1 October 2002.

For TFAs issued after the date of implementation of this modification, this information should be published the day after the Gas Day for which the TFA was issued. For TFAs issued before the date of implementation of this modification, information should be published within one day of implementation.

Transco should publish all information relating to TFAs on the information exchange website, as soon as is practically possible after the implementation of this modification. During any intervening period, Transco should use the Shipper Information System and/or fax communication to provide the data to shippers.

Information to be published

Transco should confirm whether, in Transco's view, the TFA was issued for 'Gas Quality' or 'Capacity' purposes.

In relation to 'Gas Quality' TFAs, Transco should publish a brief description of why it was necessary to issue the TFA for each ASEP where a TFA was in place (i.e. what characteristic of the gas being delivered was not within Network Code entry specifications). For each ASEP where a TFA was issued, Transco should also publish details of the time that the TFA was put in place, its duration and specific details of the entry flow restrictions that applied whilst the TFA was in place.

In relation to 'Capacity' TFAs, Transco should publish information relating to each ASEP where a TFA was issued. For each ASEP, Transco should publish whether the TFA was temporary or permanent (i.e. whether it applied for part of the Gas Day or until the end of the Gas Day). Transco should also publish the time that the TFA was put in place, the duration of the TFA and specific details of the entry flow restrictions that applied whilst the TFA was in place.

Purpose of Proposal

This modification would, if implemented, better facilitate the relevant objectives of the efficient and economic operation of the pipeline system and competition between shippers and suppliers. Shippers would be able to monitor Transco's use of TFAs more effectively and claim compensation, where firm capacity rights have been affected. This will build greater confidence and understanding in the capacity arrangements and will lower shipper's perception of risk. It will also ensure that Transco uses TFAs only when necessary and that Transco also faces some of the costs associated with using TFAs to manage constraints under its SO incentives. This will, over time, lead to more efficient system operation by Transco.

Consequence of not making this change

Failure to publish this information will hinder the development of the capacity market by undermining shippers' confidence in the nature of the capacity rights being purchased. If shippers and customers cannot monitor Transco's use of TFAs and ensure that they are being used properly and that compensation is paid where appropriate, this will undermine confidence in the market. This will lead to higher risk premia, potentially higher costs of system operation to Transco and higher costs to customers. It will also hinder the development of an actively traded secondary market in capacity, raising risks and costs to shippers and customers.

Building shippers' and new entrants' confidence in the arrangements and the nature of the rights being purchased is necessary to ensure the success of the sale of long term entry capacity rights. Concern over Transco's use of TFAs may reduce the willingness of shippers and other users to commit to purchase long term capacity rights.

Area of Network Code Concerned

Section I

Proposer's Representative

Stephen Charles Smith (AEP Energy Services Ltd)

Proposer

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Signature

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