

MODIFICATION PROPOSAL No. 0401

Title: Reduction of Overrun Charges for System Entry Capacity

Date: 20 May 2000

Proposed implementation date: as soon possible

Urgency: Urgent

Consequence of not making this change:

If this Modification is not implemented quickly shippers will continue to face penal overrun charges which outweigh the cost, based on LRMC calculations, to Transco of making all capacity available to the market. Competition in the UK gas market will continue to be compromised, due to the poor operation of the secondary capacity market, as the financial risk to shippers of not having capacity will remain high, unreflective of costs, and thus the secondary market for capacity rights will continue to be illiquid. The operation of the NTS is likely to continue to be inefficient, and thus Transco will be failing to meet its relevant objectives, as not all capacity will be released to gas shippers at a reasonable, cost reflective prices. Unnecessary gas price rises, caused by the current capacity regime, will also feed through to UK gas customers.

Area of Network Code Concerned:

Section B, paragraph 2.10.3, the calculation of overrun charges,

Nature of Proposal:

This proposal seeks to ensure that all entry capacity is made available at all terminals at "reasonable cost" to the help Transco fulfil its relevant objectives. It proposes that different overrun charges apply at ASEPs on "Constrained Capacity Days" and capacity unconstrained days, where a constrained day is identified as one on which Transco curtailed or bought back firm capacity rights at the ASEP.

On gas days when an ASEP is unconstrained a User who delivers gas in excess of the User's Available System Entry Capacity at the ASEP shall pay an overrun charge calculated as:

- a) $1.1 * C$ where C is the highest bid price pursuant to any daily capacity which was accepted by Transco in respect of the Aggregate System Entry Point for the day.

Or

- b) $2 * \text{the reserve price applicable to the ASEP, in the Monthly System Entry Capacity auctions, if no daily capacity has been sold.}$

On "Constrained Capacity Days", where Transco has bought back, scaled back or curtailed firm capacity at the ASEP for all or part of the gas day, the overrun charges shall be the greater of;

- c) $6 * B$, where B is the applicable Daily Rate for the Monthly System Entry Capacity at the ASEP on the gas day.

Or

- d) the lesser of: i) $1.5 \times D$, where D is the System Average Price for that day; or
ii) $0.4p/kWh$

Purpose of Proposal

During the course of RGTA developments overrun charges have been inflated to punitive levels in an attempt to support the "ticket to ride" principle that underlies the theory behind the auctioning of system entry capacity. V-is-on supports the "ticket" principle, but it seems widely accepted that the overrun charges have become inconsistent with the operation of the an efficient transmission system because:

- Unused capacity rights are not being traded in part due to the overrun regime.
- Spare capacity is not identified by Transco at D-1 as shippers hold capacity as insurance against overrun charges, nominating their booked rather than required capacity rights.
- Some entry capacity may go unused to the detriment of UK gas customers, pushing up prices artificially and trapping gas offshore.
- Any hoarding of capacity is difficult for Ofgem to monitor and act against in a timely manner (this is in part a factor of the long reconciliation process employed at terminals).
- RGTA was meant to create a liquid secondary market in capacity which it has not yet done.
- On unconstrained days the charges for overrun should relate to the LRMC of providing capacity to ensure all capacity is used and charged for at "reasonable cost".

This proposal continues to encourage shipper to buy capacity where possible to bring gas onshore. On a "Capacity Constrained Day" at an ASEP, when Transco has bought back, scaled back or curtailed firm capacity rights, overrun charges will remain a significant deterrent to flowing gas without firm capacity rights. This will continue to incentive the trading of capacity where possible as well as the continued participation by shippers in the monthly and daily capacity auctions.

However, on days when there is capacity to flow additional gas, though shippers have no means to get hold of those capacity rights, overruns will be less penal and more cost reflective. The charges will still be above the actual prices companies who were successful in the auctions will have paid for daily or the monthly capacity rights and should therefore continue to maintain the incentive to try and purchase capacity rights when possible,

While in an ideal world it would be most efficient if Transco could flag all capacity buy backs so that shippers who may have been overrunning gas could halt flows and not face the higher of the overrun regimes for the period within the gas day after the constraint is declared, but this is currently not practical. This proposal intends to offer a pragmatic, business solution compatible with existing information flows and the operation of the capacity regime. It is also designed to be compatible with the new screen based capacity market as the overrun regime will continue to encourage shippers to buy gas capacity rather than overrun.

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