

**Draft Modification Report**  
**Introduction of a Negative Firm Overrun Charge**  
**Modification Reference Number 0554**  
Version 2.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

## **1. The Modification Proposal**

It is proposed to introduce a new overrun charge to be applied to Users that end the day with a firm capacity holding less than zero. The new charge would be in addition to the standard overrun charge levied if a User's gas allocation exceeds its net capacity holding and would apply on a "greater of" basis with the existing negative overrun charge. The price used would be the same price as that used for the existing overrun charges and any revenues would be treated in the same way as other revenues from overrun charges.

The proposal would be implemented with effect from 1st October 2002.

Modification Proposal 0554 has been discussed at the Energy and Capacity Workstream where Users sought clarity about the operation of the proposed new charge. A Workstream report has been produced, which further explains how the proposed Negative Firm Overrun charge would be determined.

## **2. Transco's Opinion**

Transco supports implementation of this proposal. It is aware that a number of Users trade more firm entry capacity than they hold, using interruptible entry capacity to ensure that they maintain a positive end of day entry capacity holding. This activity effectively increases the total quantity of firm capacity beyond that released by Transco, because the accrued rights for interruptible capacity cannot be scaled (e.g. at 18:00 within day, a User's end of day interruptible capacity holding cannot be reduced by more than 50%, even if a 100% scaling factor is applied). Therefore opportunities are created for Users to effectively trade interruptible capacity as a firm product.

These actions potentially result in an increase in the effective level of firm capacity available to the market above that which Transco released, and therefore potentially an increased buy-back requirement. This may lead to increased costs for both Users (via capacity neutrality) and Transco (via its buy-back incentive).

## **3. Extent to which the proposed modification would better facilitate the relevant objectives**

This proposal would increase the efficient and economic operation of the entry capacity regime because it discourages the creation of firm capacity beyond that released in Transco's

primary allocation and therefore furthers the relevant objective Standard Condition 7(1)(a) of Transco's GT Licence.

**4. The implications for Transco of implementing the Modification Proposal , including  
a) implications for the operation of the System:**

The Proposal would enable Transco to manage entry capacity in a more efficient and economic manner. It would incentivise Users not to effectively create additional firm capacity beyond that which Transco has released in a primary allocation. The quantity of firm capacity is therefore more likely to be consistent with the quantity released in primary allocations.

**b) development and capital cost and operating cost implications:**

No significant costs are anticipated.

**c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:**

Any additional System Operator costs incurred as a result of implementing this Proposal would be accounted for under the proposed internal cost incentive scheme, as set out in Ofgem's final proposals for System Operator incentives.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

There are no such consequences.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal**

If more firm capacity is in circulation than that released by Transco then there is a clear risk of increased capacity management costs. All such costs represent a shared liability between Users and Transco.

**6. The development implications and other implications for computer systems of Transco and related computer systems of Users**

Systems developments will be required to implement this proposal, and it is anticipated that these could be delivered at the beginning of December, to be included in the October overrun invoice.

**7. The implications of implementing the Modification Proposal for Users**

Users that trade more firm entry capacity than they hold and retain firm capacity holding less than zero at the end of the gas flow day, would be charged an overrun charge based on the

extent to which their holding is negative. Users that hold Monthly System Entry Capacity at the ASEP where the overrun charge was generated would receive a share of the revenue.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party**

There are no such implications.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal**

There are no such consequences.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages:

- reduction in buy back costs for Transco and Users

Disadvantages:

- increased complexity in the entry capacity regime

**11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

*Representations are now sought.*

**12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation**

Implementation is not required for this purpose.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

Implementation is not required having regard to any such proposed change.

**14. Programme of works required as a consequence of implementing the Modification Proposal**

There are no additional works required.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

Draft Modification Report issued      11th July 2002

Close-out for representation	25th July 2002
Final Modification Report issued	29th July 2002
Ofgem decision expected	1st August 2002
Implementation	1st October 2002
System delivered and first invoice issued	December 2002

## **16. Recommendation concerning the implementation of the Modification Proposal**

Transco recommends implementation.

## **17. Text**

### **SECTION B SYSTEM USE AND CAPACITY**

*Amend paragraph 1.3.1 to read as follows:*

"...in respect of capacity utilised (or negative capacity), in accordance with this Section B."

*Amend paragraph 5.5.2 to read as follows:*

"Subject to paragraph 5.5.4, where a User's...."

*Add new paragraphs 5.5.3 and 5.5.4 to read as follows:*

"5.5.3        "Subject to paragraph 5.5.4, where a User's Available Firm System Entry Capacity is negative the User will be liable to pay a System Entry Overrun Charge in accordance with paragraph 2.12 on the basis of an overrun quantity on each Day calculated as the sum of :

- (i)        the magnitude of the User's negative Available Firm System Entry Capacity;  
and
- (ii)       the amount (if any) determined to be the overrun quantity in accordance with paragraph 2.12.2 if the User's Available System Capacity Assume Interruptible SEC included for this limb of the calculation. at the Aggregate System Entry Point were zero.

5.5.4        Where in respect of an Aggregate System Entry Point a User's Available System Capacity and Available Firm System Entry Capacity are negative the User will only be liable to pay the greater of the System Entry Overrun Charge determined under paragraphs 5.5.2 and 5.5.3."

***Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report***

Signed for and on behalf of Transco.

Signature:

**Tim Davis**  
**Head of Regulation NT&T**

Date: