

Representation For. 0733

"Facilitation of Substitutability Between Capacity and Locational Energy Actions"
Version 1.0

Date of Communication: 01/02/2005
External Contact: Tanya Morrison (Shell Gas Direct Ltd)
Slant: Against
Strictly Confidential: No

Abstract

Shell Gas Direct Limited

Mr Julian Majdanski
Modification Panel Secretary
NGT House
First Floor, D3
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Gallows Hill
Warwick
C34 6DA
1 February 2005

Dear Julian

Modification Proposal 0733 - Facilitation of Substitutability Between Capacity and Locational Energy Actions

I refer to the above modification proposal raised by Transco. It proposes to make changes to "align" the Network Code with Transco's licence to allow it to have choice to take either capacity actions or locational energy actions to resolve a locational issue.

Shell Gas Direct (SGD) does not support this modification proposal. We have a number of concerns in respect of the process by which it is being proposed and the effect of this change, which we consider to be inefficient for the operation of the gas market overall.

This modification follows previous ones regarding the interactions between energy and capacity actions. We understood 0592 to have arisen due to concerns that Transco was already using balancing actions to resolve transportation constraints and the costs of doing so needed to be targeted.

This was followed by amendments to Transco's licence and then proposal 0687 which changed accounting for locational actions. When these were consulted upon, we asked for more clarity to be given on the purpose of these proposals and what, in detail, the issue being addressed was. While Ofgem provided some information, it was not detailed.

The introduction of the Reform of Gas Trading Arrangements in 1999 was, in part, promoted on the efficiency of targeting costs, ie separating energy costs from capacity

costs and targeting these appropriately. This approach appears to have been changed to less well-specified approach of Transco "efficiently" choosing between locational and balancing actions. We see no reason to see that what is proposed is more efficient than the current arrangements; not are we aware of any analysis or consultation on this significant change in approach by Ofgem.

In outlining this proposal, Transco refers to the explanatory notes accompanying the licence change. This does not appear to be in keeping with due process which should accompany any such changes. Neither of Ofgem's examples appear an efficient approach and, amongst other problems, are likely to reduce the transparency of Transco's approach. We find it unlikely that buying back capacity at one entry point in order to encourage more gas to enter at another point would ever be efficient or timely. Transco would likely need to buy such large quantities of capacity to create this effect that the costs would be significant. Shippers could react by bringing on gas at other locations that the one which is short creating the need to buy back at yet more locations. What Transco wants in such a situation is an energy response and it appears more sensible and efficient for it to use energy mechanisms. Ofgem's proposals for the second scenario would mimic the events at St Fergus in 1998 which created large energy neutrality costs, which were considered to be inefficient not least because they were not properly targeted. This inefficiency will be replicated through this proposal.

Shell Gas Direct does not support this modification proposal as it does not further the Relevant Objectives of the Network Code. It will undermine the efficient and economic operation by the licensee of its pipe-line system. It will also run counter to the effective competition between shippers by undermining the current targeting of costs of capacity and energy actions by having them separated. It will also undermine the transparency of the System Operator's actions. Implementing this proposal would suggest that earlier implementations by Ofgem ran counter to the Objectives (notably Modifications 0313 and 0314).

We recommend that if it is considered in light of experience that the separation of capacity and energy should be reversed a full consultation on this change is undertaken by Ofgem or Transco setting out experience to date and providing analysis as to why the new approach can be considered more efficient than the current arrangements. We consider that the Code is consistent with the licence as modified through M687 by allocating the costs and revenues as per the licence changes. We do not consider that necessary consultation has been undertaken to allow further change and do not consider explanatory notes, that further change was "envisaged" provide sufficient justification for such a change in the absence of a transparent change in policy by Ofgem taken forward through normal consultation processes.

Yours sincerely

Tanya Morrison
Regulatory Affairs Manager.