

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0618

"Publication of Shrinkage Provider gas procurement and disposal information"
Version 1.0

Date: 18/02/2003

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Transco has a financial incentive under their System Balancing incentive scheme to ensure that they manage the Shrinkage account effectively to reduce costs. Under their NTS SO gas costs target, Transco is incentivised to maximise their performance under their Shrinkage incentive as they can retain a portion of the cost efficiencies or profit attained.

Following Ofgem's implementation of Modification 579, Transco can now dispose of any excess Shrinkage gas it no longer needs at the NBP at market prices. This effectively increases Transco's flexibility as Shrinkage Provider (SP) to trade around its system requirements for Shrinkage gas by purchasing gas both at the Beach and NBP whilst disposing of excess gas at the NBP. This catapults Transco into a new trading arena as they can now buy and sell unlimited amounts of gas if it indicates that such amounts are necessary for Shrinkage gas purposes. Shippers expressed their concerns in response to modification 579 regarding Transco taking speculative positions when managing the Shrinkage account. Transco stated in their final modification report that this type of behavior would be inappropriate and that therefore the proposal included a restriction that the quantity of gas which is the subject of disposing trades must be less than or equal to the quantity associated with NBP trade acquisitions for that day. However, the legal text implemented does not prevent or limit Transco's ability as Shrinkage Provider to purchase unlimited quantities of gas ahead of the day if it believes it is required for shrinkage purposes, and then disposing of any excess gas up to that limit at the NBP. The ability for Transco to affect market prices in this respect is apparent. The true level of Shrinkage gas required on a day may therefore not necessarily reflect the quantities purchased before the day and Users will not know exactly which volume of Transco trades have been used for which system management services.

Transco stated in their final modification report that implementation of this modification would help reduce costs and Users in accordance with the SO incentive parameters. Transco also stated that their ability to dispose of any excess shrinkage gas would potentially provide extra liquidity in the NBP market.

London Electricity Group (LEG) agree with this statement and believe that this greater flexibility endowed upon Transco will inevitably allow more market participants to trade out Shrinkage Gas requirements with Transco, thereby increasing competition whilst introducing more efficient NBP prices into the market. However, for these benefits to ultimately transpire into the market place Users should be provided with more information regarding Transco's management of Shrinkage account as SP to ensure that Transco is operating the system efficiently.

Shippers and customers ultimately bear the cost of inefficient balancing actions and therefore it is in the interest of Users to have unilateral access to a level of information which will help

understand and ensure Transco is accessing the right system management tools and in the most effective way.

Transco has several incentives under its price control to take efficient actions to minimise the cost to the industry and therefore customers. There is a sharp correlation between the quantity of gas Transco procures for Shrinkage and energy balancing purposes and therefore the interactions between both accounts need to be fully understood to understand the implications on overall system balancing costs and Transco's performance under their Licence. The lack of transparency in this part of the System Operator actions does not facilitate the efficient operation of the system and is not line with the safe and economic operation of the system.

LEG believes that more information provision regarding the level of Shrinkage traded volumes and prices will introduce more effective balancing by Shippers who are themselves incentivised to attain a balanced end of day position. It will also allow shippers to monitor Transco's performance in light of their new Licence conditions and incentives now that Shippers are being encouraged to do so as per Ofgem's implementation report on modification 579.

LEG understands that there may be some confidentiality issues with Shrinkage contracts currently in place but do not believe that the information provision requests arising from this modification would prevent publication of this data. LEG believes that where a breach of confidentiality does arise, this could be addressed through confidentiality waivers of the kind several shippers signed following the implementation of modification 588 Modification 588¹.

Nature of Proposal

For each gas day where the Shrinkage Provider has contracted to buy or sell gas for Shrinkage purposes, Transco should publish before the gas day the following information in respect of that gas day:

- Their unbiased estimate of Shrinkage gas requirements for the next gas day in kwh/therms;
- The volume of Shrinkage gas purchased and sold before the day;
- The number of buys and sells trades executed in respect of that gas day;
- The delivery point of all Shrinkage gas bought and sold, whether at the NBP or at the beach.

For each gas day, Transco should publish after the gas day the following information in respect of the day before:

- Their final net Shrinkage position in kwh/therms
- The volume of Shrinkage gas purchased and sold on the day;
- The total number of buys and sells trades executed in respect of that gas day;
- The weighted average price of all buys and sells

¹ "Publication of further forward and option entry capacity information" implemented 12 February 2003.

- The delivery point of all Shrinkage gas bought and sold, whether at the NBP or at the beach.
- The minimum price at which the shrinkage gas was bought
- The maximum price at which the shrinkage gas was bought
- The minimum price at which the shrinkage gas was sold
- The maximum price at which the shrinkage gas was sold

Purpose of Proposal

This modification would, if implemented, better facilitate the relevant objectives of the efficient and economic operation of the pipeline system for the following reasons:

- Increase competition between shippers for the provision of Shrinkage gas procurement and disposal contracts;
- Add more liquidity in the market for Shrinkage Gas management services;
- Lead to more efficient and economic Shrinkage gas management whilst lowering costs;
- Enable Shippers to better forecast their NDM/DM demand on a day;
- Enable shippers to better determine system imbalance and to achieve a more effective end-of-day balanced position;
- Enable Shippers to monitor Transco's performance vis-à-vis their Price control and Licence obligations;

Consequence of not making this change

Failure to publish this information will hinder the development of competitive re-pricing in the provision of System Balancing management services to Transco leading to higher costs of system operation and higher costs to customers. It will also hinder the industry's ability to effectively assess the efficiency of Transco's System balancing requirements and performance under their Licence and Procurement Guideline conditions. This would in turn drive down the costs of balancing the system as shippers would be able to better manage their imbalances through better forecasting with this level of information provision.

Area of Network Code Concerned

Section N

Proposer's Representative

John Costa (London Electricity Group)

Proposer

Signature

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