

TRANSCO WORKSTREAM REPORT

"Demand Side Contestable Services"

Version 1.0

1 Background to the Modification Proposal

The background to this Modification Proposal was described in the Proposal as follows:

"This Modification Proposal replaces Modification Proposals 0584 and 0585 and is being raised as a result of discussions that have been held with HSE, Ofgem and Shippers over recent months."

Previous Workstream Reports for Modification Proposals 0584 and 0585 reflected the discussions that took place within the NT&T Workstream which preceded the replacement of these Proposals with Modification Proposal 0605. This Report should be read in conjunction with that previously submitted to the January Modification Panel.

2 Workstream Discussion

The Proposal was discussed at the meeting of the Planning & Security (including) Storage Sub-group (PSS) on 4 February 2003. Transco responded to actions brought forward from the January Sub-group meeting:

Tick sizes: Transco had suggested values of 0.5 GWh/day for the Low-Flow service and 1 GWh/day for the Rate Change service. Concern had been raised about possible discrimination through the use of different tick sizes. Legal advice had been obtained and this was that the use of different tick sizes would not be discriminatory providing there was a valid reason for such. Transco was satisfied that the two services were sufficiently different to allow such a variation. It was noted, however, that a problem might be encountered if Transco should propose to vary tick sizes within the same service (eg between Operating Margins and Energy Balancing). Centrica Storage requested that term "tick size" be discontinued as it was unhelpful. When discussing minimum contractual quantities, the expression "minimum daily flow rate" would be more appropriate. This was agreed.

Transco had also considered whether the Low Flow minimum bid quantity should match the threshold for interruption (200,000 therms AQ, implied minimum SOQ of 16,000 kWh). Transco recognised that the services were similar but arguably different because interruption requires complete shutdown whereas Low Flow potentially does not. Transco confirmed that a low minimum bid quantity could be accommodated for Low Flow, although the intention was to seek bids from existing firm DM sites, whose AQs would be at least 2 million therms. Transco still proposed to limit Rate Change contracts to VLDMCs with remote isolation capability and, given the shorter leadtime associated with Operating Margins or Energy Balancing requirements, a minimum bid quantity of 1 GWh was still considered appropriate.

Transco further advised that it was considering setting maximum as well as minimum bid sizes to achieve more flexibility and to spread risk. These were suggested as 1 GWh for Low Flow and 5 GWh for Rate Change.

Information provision: EnMO had been contacted regarding the feasibility of incorporating Energy Balancing bids into the calculation of system prices. EnMO had expressed the view that this could be done without system changes by means of a manual work-around, which would take approximately one hour. However, it would not want to commit to carrying out an exercise on this basis with any degree of frequency – once or twice a year would be acceptable. If an increase to this frequency was envisaged, it may need to carry out a scoping exercise for a systems solution. It was confirmed that Transco still intended to use Contestable Services (Rate Change option) for energy balancing.

Current Price of Transmission Support: This action was reported in the January minutes of the Sub-group - Shippers and End-Users would need to consider the viability of offering a Low Flow service at somewhere around the 2002/03 price of £1.90 per peak day therm (Avonmouth) and £1.30 (Isle of Grain). It was noted that the ability to bid at such levels may be more related to costs of restricted or lost production than to the energy market.

Transco reiterated its invitation for any feedback on the previously issued term sheets, business rules etc.

Transco confirmed a meeting had been arranged with Ofgem in February to discuss the issue of responsibility for costs. It would be possible to go out to tender for the two services as late as September in order to have service availability for the forthcoming winter. It was hoped that this exercise would provide some insight and helpful information to contribute to the Exit Review, which is due for implementation on 1 October 2004.

3 Recommendation

The Sub-group recommends that the Proposal remain with the Workstream until Ofgem's view on cost responsibility has been established.