

TRANSCO NETWORK CODE REVIEW PROPOSAL No. 0513
"Reform of Energy Balancing Regime"
Version 3.0

Date: 13/12/2001

Urgency: Review

Nature of Proposal

With a view to addressing the concerns highlighted in the following section, it is proposed that a Review Group be established with a remit to investigate alternatives for development of the Network Code in respect of the energy balancing regime. This will include consideration of the appropriateness of the present length of balancing, allocation, trading and settlement periods and the targeting of Residual Balancing Costs.

Purpose of Review

Since spring 2000 Transco has publicly raised concerns about the effect of uncertainties regarding within day nomination information and physical supply/demand patterns. Transco believes that such uncertainties can result in linepack variations that could lead it to take unnecessary balancing actions. Recently Transco has confirmed at various Operational Forum meetings that both the level of information uncertainty, and variation in flows on to, and off of, the system, have increased since the introduction of the Reform of the Gas Trading Arrangements (RGTA).

The design philosophy of the National Transmission System (NTS) revolves around its expected use as a bulk transmission pipeline. This design philosophy envisages the NTS being used to transport gas with a close correlation between input and offtake flow rates as well as being close to a daily balance. Fluctuations away from this even rate may reduce the efficient development and operation of this asset and, in the extreme, may jeopardise the safety of down stream systems that are dependent upon appropriate receipt of gas from the NTS system.

This design philosophy recognises that the majority of diurnal storage to address the within day profile of demand (particularly domestic load) is provided within the lower pressure tiers and via local storage facilities close to demand. In order for the NTS to deliver safely and efficiently the rates of gas required at both NTS and LDZ connected loads, gas must be encouraged to enter the NTS at close to an even rate.

Additional "linepack" flexibility is provided within the NTS design to allow some limited and temporary excursion from even rate delivery. This linepack flexibility enables Transco to:

- a. Manage aggregate LDZ offtake daily demand forecast changes for a short duration of time whilst entry flows change to ensure daily balance in accordance with the uniform flow rate principle;
- b. Accommodate short duration supply failures;
- c. Accommodate on-shore plant issues; and
- d. Meet limited LDZ diurnal storage requirements (where limited capability is available that arises from optimisation of Transco infrastructure investment decisions).

Previous analysis by Transco, referred to above, has shown that the NTS system is experiencing greater within day linepack variation than anticipated in the design philosophy. This may imply an increase in the linepack flexibility requirement being demanded by Users. On days when projected linepack utilisation exceeds acceptable levels, Transco, as the residual system balancer, takes action to address the imbalance by either buying or selling gas on to, or off of, the system. Therefore a consequential effect of the increased movement away from the planned basis of linepack utilisation is likely to be an increase in the amount of residual balancing actions required.

As the existing balancing regime and cashout processes specified in the Network Code are based upon allocated quantities for the whole day, it is possible for Users, in aggregate, to adopt, either deliberately and/or through external factors such as production infrastructure failure, an initial entry/exit flow imbalance position. This may be sufficient in aggregate to require Transco to take system balancing actions and hence potentially incur costs on behalf of the community. Due to the possible time difference between the requirement for taking this action and the end of the balancing period, it is possible for Users, who may have chosen to adopt an earlier nominated imbalance position, to change position and end the balancing period with allocated imbalances close to zero. In this situation, the ability to recover an imbalance position, due in part to the length of the balancing period, may generate untargeted costs.

In February 2001, Ofgem published a consultation document “The New Gas Trading Arrangements: Further Reform of the Gas Balancing Regime”. Within this consultation document, there are several proposals to enhance the existing Energy Balancing Regime including the introduction of hourly (or half hourly) balancing and allocations. The main objectives of enhancements would be to:

1. reduce shipper input/offtake profiling,
2. introduce better targeting of costs to those responsible, and,
3. improve the efficiency of Transco’s residual system balancing process.

The purpose of the proposed Review Group is to consider means of addressing the concerns raised regarding the potentially adverse effects of the present energy balancing regime. This will

include consideration of whether further development of the present daily regime or shortening the length of balancing, allocation, trading and/or settlement periods, might be expected to better facilitate the relevant objectives of Transco's Network Code.

Area of Network Code Concerned

B, C, D, E, F, H, I, J, M, S, U.

Proposer's Representative

Nigel K Sisman (Transco)

Proposer

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Signature

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