

"Incentivised Nomination Scheme"
Version 1.0

Transco

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Dear Nick

Modification Proposal 0479 – Incentivised Nominations Scheme (INS) & Regime Performance Monitoring

I thought it would be helpful to indicate Transco's intentions for monitoring the effectiveness of the scheme and overall performance of the regime in the event that the above Proposal should be implemented.

The complex behavioural interactions inherent within the gas balancing regime complicate the assessment and interpretation of regime performance. However, Transco considers that the INS Proposal, if implemented, would afford the potential to enhance the effectiveness of regime operation. Whilst the performance of the regime would be influenced by a wide range of factors, and not just those associated with the implementation of INS, the provision of additional information could both inform assessment of the effectiveness of INS and provide insight into some of the complex interactions.

Transco envisages that existing data provision in respect of balancing actions, neutrality costs, operational and commercial information flows will continue. Most of this data is defined in the Network Operations NORD and NORM reports and much is presented regularly to the Operational Forum. It might be appropriate to extend reporting on a monthly basis to the Energy and Capacity Workstream to ensure consistent awareness of regime operation of those involved in the Network Code development process.

Against this background, should INS be implemented Transco will develop processes to report, analyse and interpret the new INS nomination data. INS has been structured so that Transco has relatively simple data feeds from the AT-Link system to facilitate a wide range of additional regime performance analysis. As a minimum Transco would expect the reporting to include:

- the charges generated under INS for each of the four time periods at which INS nominations are made; and
- an assessment of the INS nominations made by shippers for each time period, including a comparison to their end of day imbalance positions.

This information could then be considered in conjunction with existing information that is already published about regime operation particularly:

- an assessment of supply, demand and linepack variations on Transco's system;
- an assessment of shipper balancing performance;

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- an assessment of Transco's balancing actions, including performance against the incentives, and the need for Transco to take actions on both sides of the market on the same day;
- overall consideration of the effect on regime costs, specifically balancing neutrality costs, and its constituent components.

Should INS be implemented it will be necessary to analyse, interpret and report upon the relationships that may emerge between the existing data sets arising from current regime performance information and the new data afforded by INS. Such analysis may also need to be considered in the context of both prompt and futures gas prices.

Should INS be implemented it would be helpful to discuss information provision with the community. This would have several benefits;

- alerting the community to the introduction of the new scheme, and the requirement for the new INS nomination submission;
- agreeing with the community both the additional data that might be provided in respect of regime performance monitoring and the method of dissemination; and
- perhaps indicating the extent of information provision to Ofgem to assist with monitoring of regime performance.

If a decision to implement INS was made within the next few days, Transco could include this discussion on the agenda for the 2nd May Energy and Capacity workstream.

To facilitate pre- and post-implementation comparisons Transco would intend to identify distributional information about key regime performance measures eg aggregate nominated NB10 imbalances at various times, sizes and timings of balancing actions, linepack variation within day, actual imbalance levels. Over time a post implementation set would start to accumulate to facilitate a statistical comparison.

Statistically meaningful samples would take some time to emerge but Transco would want to prepare and present data to the community on a monthly basis. Much of the data would be dependent on allocation quantities and so would not be available until after close out at "M+15". At least initially it would seem helpful to release such data ahead of the monthly Energy and Capacity Workstreams (which are held on the first Thursday of each month) to facilitate discussion about regime performance at both that meeting and at the Operational Forum. Use of the Website being developed through Review Group 0513 could be beneficial.

Should INS be implemented on 1st September then the first monthly report could be made available in early November. The Energy and Capacity Workstream could then at a subsequent meeting assess the value of the report and whether it should continue indefinitely in the light of experience.

Yours sincerely,

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NT&T Director

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