

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No: 0353

SHORT TITLE: Liability mechanism for incorrect EUC apportionment ('97/8, '98/9)

DATE: 18/08/99 PROPOSED IMPLEMENTATION DATE: ASAP

URGENCY: Non-Urgent

Transco update the Annual Quantity and other specified data each 1st October for non-daily metered sites. For gas years 1997/8 and 1998/9, Transco have made gross errors in the calculation and provision of this data to shippers. This has had the effect of Transco making excessive capacity charges for those impacted NDM supply points (around 40,000 per annum), which have subsequently been rebated. More seriously, shippers faced an undue increase in SOQ and deemed demand, which directly translated into increased purchase of deliverability assets, gas and increased commercial exposure.

This modification proposal places a transparent, market related liability on Transco to reflect some of the costs to the industry, both realised and carried through exposure to Transcos errors in calculating EUCs. This liability is proposed to be a bottom line hit to Transco and would not be recoverable through Neutrality or "k" factor. This Modification proposal only applies for Registered Users whose capacity for any affected sites is overstated by a net positive amount.

NATURE OF PROPOSAL:

The period of dispute is 1st February 1998 to 31st March 1999. This encompasses two winter periods where the capacity of a Registered Users I&C portfolio may have been uplifted.

It is proposed to identify and agree the overstated SOQ capacity between Transco and each Registered User by month for each winter month (November to March where applicable). The peak monthly SOQ difference for the two separate periods (Feb/Mar 1998; Nov/Dec/Jan/Feb/Mar 1999) should be identified. This becomes the SOQD for each period. In aggregate, Transco overstated the SOQ for this segment of the market by some 4 million therms peak demand for 1998/9.

The basket of BG storage products sold at 1st May each year and subsequently published should be used to calculate the weighted average cost of deliverability of a therm from Storage services. Making this calculation based on a later date, such as at 1st February each year would be preferable but such cumulative bookings are not published.

The calculation is:

Storage bundle SB =
$$\frac{[Br * Pr] + [Bh * Ph] + [Ba * Pa] + [Bd * Pd] + [Bg * Pg] + [Bi * Pi] + [Bp * Pp]}{[Br + Bh + Ba + Bd + Bg + Bi + Bp]}$$

Where r = Rough, h = Hornsea, a = Avonmouth, d = Dynevor, g = Glenmavis and p = Partington and,

B = deliverability booking for the relevant year and P = price for relevant year (i) in p/pdkWh

The Risk Premium (R_{Pi}) = SB_i * SF

Where SB is the Storage Bundle Price for each year and SF is the Scaling Factor, set at 0.95 to reflect that full cover to the exposure was not made across the industry.

Thus Transcos payment becomes: SOQDi * R_{Pi}

In preparing this Modification proposal, it was recognised that Individual Users will have managed the risks in different ways and will have different costs. Given the very significant complexities in reaching agreement in a non-discriminatory manner, a reasonable, prudent, transparent, market indexed methodology is adopted, designed to be neutral to shipper circumstances yet reflective of the risk (both cost and exposure) imposed on Users.

PURPOSE OF PROPOSAL:

This Modification proposal has been discussed, developed and is supported by a number of companies including Scottish Power and British Gas Trading. The EUC Energy Sub-group went through a common methodology and demonstrated this to be rigorous.

The modification proposal is designed to reimburse Registered Users for costs (realised and carried) unnecessarily incurred due to Transco errors in calculating supply point capacity.

CONSEQUENCES OF NOT MAKING THIS CHANGE:

Transco erroneously calculated capacity elements that caused Registered Users increased cost and risk for gas years 1997/8 and 1998/9. To date, Transco have borne no ability or cost from this error. An EUC Settlement agreement dealt solely with payment to shippers for some of their administration costs in amending the EUCs with effect from April 1999.

Transco have failed to act in accordance with Condition 7(1) of its PGT Licence, specifically to run an economic and efficient network, as such errors have been uneconomic within the industry. In addition, the error works against securing the effective facilitation of competition between relevant shippers.

Transco should make a payment to those adversely affected by this. Transco were unwilling to consider the energy issues within the framework of IQR, so attempting to close off a significant proportion of the problem from their perspective.

BG plc are likely to have benefited overall from such an error, with increased levels of storage bookings above those necessary. There is a Licence condition to cover peak demand for Domestic, and whilst there is no comparable requirement for the Industrial and Commercial market, there are commercial incentives to provide a level of cover. Storage is recognised as one of the most cost-effective ways of doing this.

AREA OF NETWORK CODE CONCERNED:

Section H, V

LEGAL DRAFTING:

To be provided by Transco

IDENTITY OF PROPOSERS REPRESENTATIVE: Mark Dalton

PROPOSER: Mark Dalton

SIGNATURE:

POSITION: Commercial Operations Manager

COMPANY: Yorkshire Energy Limited

MODIFICATION PANEL SECRETARY'S USE ONLY

Reference number: 0353

Date received: 18/08/99