

**Modification Proposal 0373 Development Workgroup**

**Review of Shipper tolerance levels, cashout regime and the introduction of Linepack Services - Draft Terms of Reference.**

**1. Composition:**

|                   |         |
|-------------------|---------|
| Nigel Sisman      | Transco |
| Les Male          | Transco |
| David Chamberlain | Transco |
| Rebecca Purves    | Ofgem   |

plus shipper representatives of the Capacity and Energy Workstreams with agreement of the Modifications Panel.

**2. Scope of work.**

As part of their document “ The New Gas Trading Arrangements: A decision document” Ofgem set out a number of additional changes to the current regime which Ofgem “expected to be introduced in subsequent months”. Within the Energy Balancing regime desired changes fall into the following areas:

- Introduction of a linepack or tolerance service.
- Reduction in Shipper balancing tolerances to zero.
- Revised cashout regime based upon commodity and flexibility prices.
- Removal of the monthly cap and collar restrictions on Transco energy balancing incentive mechanism.

The Development Workgroup will consider and, if appropriate, facilitate the introduction of the above changes. A number of areas of the current regime will need to be reviewed and, where necessary, changes recommended to improve the efficiency of the regime. The areas to be reviewed are:

- The form of a linepack or tolerance service which could be implemented in the timescale.
- The possible use of tolerance service prices as a surrogate for within day flexibility valuations.
- The possible revision of the cashout regime to utilise within day flexibility valuations.
- The extent, if any, to which the current Shipper balancing tolerance regime should persist.

**3 Form of simple Linepack tolerance services and interaction with the OCM and Cashout regime.**

Specific areas to be reviewed:

- a. Service definition
  - tolerance products

- timing of primary release
  - basis for allocation of primary product
  - trading framework for product
  - treatment of revenues / cashflows
  - invoicing processes
  - IT systems definition
  - service provider
  - timescales for initial implementation
- b. Cashout considerations
- use of tolerance service prices for cashout derivation
  - incentives on Shippers
  - requirements for regulatory monitoring
- c. Monthly caps and collars on Energy Balancing incentive
- reconsider need for monthly cap and collars

#### 4. Evaluation criteria

The implementation options will be evaluated with reference the following criteria:

- Efficient and economic operation of the pipeline system,
- Securing effective competition between relevant shippers and between relevant suppliers,
- Efficient operation of shipper activity.

These criteria are relevant objectives incumbent upon Transco for the provision of a Network Code as detailed in standard condition 7 of its Public Gas Transporter Licence. .

#### 5. Reporting.

It is intended that this Development Workgroup will prepare an update report to the Modifications Panel each month in time for the meeting of the Modifications Panel.

#### 6. Workgroup timetable.

Key Dates:

|  |   |
|--|---|
| 11th November 1999 -   | Modification Proposal and Terms of Reference to be provided to the Modifications Panel. |
| 18th November 1999 -   | Modifications Panel vote to send Proposal for development.                              |
| 2nd December 1999 -  | First meeting of the workgroup  |
| Timescales following the full Modifications process will require a timetable as follows: |   |
| January / February -   | Development workgroup report completed and Modification Proposal sent for consultation. |
| Mid March 2000 -   | Ofgem decision announced  |