

**NEW GAS TRADING ARRANGEMENTS**

**DETAILED BUSINESS RULES**

**FOR**

**IMPLEMENTATION IN APRIL 2000**

**Version 2.0**

**TOLERANCE SERVICES**

**Prepared following debate with the**

**Network Code Modification 373 Development Workgroup**

*NB These Detailed Business Rules define the preferred business definition for a tolerance service to be introduced on 1st April 2000 should such a service be required*

## 1.0 Sale of Tolerance

*This section describes the mechanisms by which Transco will make initial tolerance services available to Shippers from 1st April 2000.*

*Transco will release tolerances as follows:*

- 1. Via long term tolerance auctions which take place ahead of the month concerned and within which the same quantity is made available for each Gas Day of that month*

*and*

- 2. In day ahead tolerance auctions which take place close to but prior to the Gas Day*

*The degree to which tolerance is sold in long term and daily tolerance auctions is determined by the parameters which are set in these rules.*

*Long term tolerance will be sold by auction only as monthly tranches and for the first six months (October to March) of each Gas Year will be sold in [the first week of September] in advance of the Gas Year which commences in the October of the same calendar year. The second six months (April to September) will be sold in [first week of March] of that Gas Year. In each case after the long term entry capacity auctions have been conducted.*

*The auctions for April to September 2000 will take place in March 2000*

*Day ahead tolerance may be made available on the day before the Gas Day (D-1).*

## 1.1 Tolerance Availability

- 1.1.1 By the 31st July of each Gas Year, Transco will make declarations of the **long term tolerance availabilities** for each month in the Gas Year commencing the following October. These quantities shall be derived as the product of 0.66 (the **Applicable Monthly Tolerance Percentage**) and the applicable Seasonal Normal System Demand averaged over the days in the month.

**Agreed**

- 1.1.1.1 For the 1999/2000 Gas Year, this declaration shall be made by 1st March 2000 for April 2000 to September 2000 inclusive

**Agreed**

- 1.1.1.2 The Applicable Monthly Tolerance Percentage will be set by Transco on a prospective basis

For each month in the appropriate period Transco will calculate the result of the following formula:

1.5 % of forecast Seasonal Normal System Demand (SNSD) plus  
2.25% of forecast VLDMC offtakes plus  
6% of forecast DM offtakes

All these forecasts are to be calculated by taking the aggregate of the daily forecasts of the month concerned, assuming Seasonal Normal System Demand, and dividing the result by the number of days in that month

This result will then be further multiplied by a factor "x"

For the 1999/2000 Gas Year, x will be set to [1.0] but may be reduced in future Gas Years

On completion of this calculation, the resultant total tolerance available shall be divided by the arithmetic mean of the SNSD for the month concerned and expressed as a percentage which will be rounded to 1 decimal place

**Agreed subject to agreement of the value of x**

*The introduction of the x factor followed discussion in the work group whereby a simple mechanism could be implemented so that aggregate tolerances could be readily increased or decreased from the current levels. Factors of less than 1.0 imply a reduction from current levels. It is intended that work group meeting to be held on 26th of January will seek to establish a consensus view for the level of the x factor*

- 1.1.1.3 The monthly values of Seasonal Normal System Demand will be the same as the national values detailed in Transco's Base Plan Assumptions for that Gas Year

**Agreed**

- 1.1.1.4 These declarations for both **overdelivery** (ie for where their UDQIs exceed their UDQOs) and **underdelivery** (ie for where there UDQOs exceed their UDQIs) shall be equal in magnitude

**Agreed**

- 1.1.1.5 In the 1999/2000 Gas Year, Transco will sell the tolerance availabilities for each month in two rounds

**Agreed**

- 1.1.1.6 Where more than one round is involved, for each month equal quantities shall be made available in each round which shall total the availabilities defined in 1.1.1.2 above  
**Agreed**
- 1.1.2 By 13:30 on D-1, Transco will make declarations of both overdelivery and underdelivery **day ahead** tolerance availabilities for the Gas Day  
**Agreed**
- 1.1.2.1 For each of the underdelivery and overdelivery tolerance services, the day ahead availabilities for the Gas Day shall be the greater of zero and  
  
the Monthly Availability Percentage specified in Appendix 1 multiplied by the forecast national system demand, which shall be that which is current at 13.00 D-1  
  
less  
  
The total amount of long term tolerance sold for that Gas Day in the long term tolerance auctions  
**Agreed**
- 1.2 Long Term Tolerance**
- 1.2.1 The long term tolerance services will be sold on a price auction basis  
**Agreed**
- 1.2.1.1 The auction shall be conducted on a “pay as bid” basis  
**Agreed**
- 1.2.1.2 There will be a reserve price of 0 p/kWh
- 1.2.2 Long term tolerance will be made available in advance of the month to which the tolerances relate  
**Agreed**
- 1.2.2.1 The same long term tolerance quantities purchased for a month shall apply to each Gas Day of that month  
**Agreed**
- 1.2.3 For tolerances sold in respect of 2000/2001 and subsequent Gas Years, the sale of long term tolerance will take place for the first six months of the Gas Year (October to March) in the first week of September of the preceding Gas Year and for the second six months (April to September) in the first week of March of that Gas Year  
**Agreed**
- 1.2.3.1 For the 1999/2000 Gas Year the long term tolerances for April to September 2000 will be auctioned in March 2000  
**Agreed**
- 1.2.3.2 Where the long term tolerance auctions are conducted over more than one round equal quantities of tolerance of both types

(underdelivery/overdelivery) will be available in each round for each of the months on offer

**Agreed**

- 1.2.3.3 By the 31st July in each Gas Year (except 1999/2000), Transco will publish the date(s) of the auction round(s) and the associated commencement time(s)

**Agreed**

- 1.2.3.4 The quantities available specified in 1.2.3.2 will be rounded to the nearest 100,000 kWh

**Agreed**

- 1.2.4 For each round, a bidding window will be opened to permit Shippers to bid their requirements to Transco for long term tolerance for each month on offer

Each bid will comprise:

Indication of tolerance type (overdelivery/underdelivery)

Month

Bid quantity (kWh/day)

Price (p/kWh) to a precision of four decimal places

**Agreed**

- 1.2.4.1 This bidding window for the first round of any 6 month blocks shall normally open at 06.00 on the first Gas Day of the month in which the auctions are to be conducted and close thirty minutes prior to the commencement time published in accordance with 1.2.3.3 above

**Agreed**

- 1.2.4.2 When one auction round is completed and the tolerance allocated, the window for the next round (if any) shall open at 18.00 on that Gas Day

**Agreed**

- 1.2.4.3 For the 1999/2000 Gas Year, the auctions shall be conducted as follows:

### **Round 1**

Bidding Windows Open: 06.00 on 15th March 2000

Bidding Windows Close: 17.00 on 17th March 2000

Results Notified to all Shippers: by 09.00 on 20th March 2000

### **Round 2**

Bidding Windows Open: 06.00 on 20th March 2000

Bidding Windows Close: 17.00 on 22nd March 2000

Results Notified to all Shippers: by 06.00 on 23rd March 2000

**Agreed**

- 1.2.4.4 Where more than one auction round is planned, if at the end of an auction round there is a quantity of gas to be allocated and there are no valid bids remaining, no further auction rounds shall be conducted for that month for that tolerance type **Agreed**
- 1.2.5 Bids will be validated prior to processing and allocation. A bid will be rejected if it fails this validation, which shall be against the following criteria:
- 1.2.5.1 For each round and each month, each Shipper will be permitted a maximum of twenty overdelivery and twenty underdelivery “live” long term tolerance bids **Agreed**
- 1.2.5.2 This does not prevent a Shipper from adding, amending or withdrawing as many bids as it requires providing that at all times no more than twenty bids of each type for each round and each month, are posted by that Shipper for selection by Transco **Agreed**
- 1.2.5.3 There will be a minimum bid quantity of 100,000 kWh **Agreed**
- 1.2.5.4 All bid quantities shall be in whole multiples of 100,000 kWh **Agreed**
- 1.2.5.5 The bid quantity cannot be greater than quantity available for release in the auction round **Agreed**
- 1.2.5.6 The bid price must be equal to or greater than the reserve price and the reserve price will be 0 p/kWh **Agreed**
- 1.2.5.7 The same Shipper may not have more than one “live” bid at the same price for the same month and tolerance type within the same round **Agreed**
- [1.2.5.8 The total quantity allocated to each Shipper for that month and tolerance type, in all the auction rounds shall not exceed:

[y] \* the total quantity available for release

This is the **Maximum Allocable Quantity**

Once a Shipper has been allocated its Maximum Allocable Quantity it shall not participate in the subsequent auction rounds for that month and tolerance type]

*The above rule was not agreed at the Energy and Capacity Work Stream on 6th January. This work stream requested Ofgem’s views on the effectiveness of this “anti hoarding” mechanism particularly in the context of the 1999 Rough and Hornsea storage auctions*

- 1.2.6 For each tolerance type (underdelivery/overdelivery), valid bids will be accepted in price order beginning with the highest priced and

continuing until the **Outstanding Quantity** (OQ) is less than 100,000 kWh or until no valid bids remain

**Agreed**

1.2.6.1 Within this acceptance sequence, if more than one bid to be allocated has the same bid price and the total bid quantity from all these same price bids is more than the Outstanding Quantity, these bids will be allocated as follows:

1. Sum the bid quantities of the bids

i.e.

$$\sum_{i=1}^n BQ_i$$

2. Calculate the scaling factor from this summation and the Outstanding Quantity

i.e.

$$SF = \frac{OQ}{\sum_{i=1}^n BQ_i}$$

3. Multiply each individual bid quantity by the scaling factor. This is the Revised Bid Quantity ( $RBQ_i$ )

i.e.

$$RBQ_i = SF * BQ_i$$

4. For each such bid round the Revised Bid Quantities upwards to the nearest integral multiple of 100,000 kWh which becomes the quantity allocated to that Shipper in respect of acceptance of that bid

5. [Where, however, such an allocation would take any Shipper's total allocated quantity from all rounds to more than its Maximum Allocable Quantity, the Shipper's Revised Bid Quantity will be further reduced so that the Shipper's total allocated quantity from all rounds equals its Maximum Allocable Quantity. Such quantities will then be subtracted from the Outstanding Quantity and the process within this Section 1.2.6.1 for all other bids at the same bid price repeated.]

**Agreed**

*Step 5 is only required where the anti hoarding measures specified in 1.2.5.8 are implemented*

- 1.2.6.2 Where there is one remaining bid for which the bid quantity is greater than the Outstanding Quantity, the Shipper will be allocated the closest multiple of 100,000 kWh to the Outstanding Quantity

**Agreed**

- 1.2.7 By 06.00 on the next business day following the auction, Shippers will be notified of the outcome of the allocation process with respect to their long term underdelivery and overdelivery tolerances that they have secured for each Gas Day of the month concerned

**Agreed**

- 1.2.7.1 This notification shall be made on each Shipper's tolerance bidding screens

**Agreed**

### **1.3 Day Ahead Tolerance**

- 1.3.1 The day ahead tolerance service will be sold on a price auction basis

**Agreed**

- 1.3.1.1 The auction shall be conducted on a "pay as bid" basis

**Agreed**

- 1.3.1.2 There will be a reserve price of 0 p/kWh

**Agreed**

- 1.3.1.3 The day ahead tolerance availabilities will be as defined in 1.1.2.1 above

**Agreed**

- 1.3.1.4 Shippers will be advised of the availabilities by [13.30] D-1

**Agreed**

- 1.3.2 A bidding window will be opened to permit Shippers to bid their day ahead tolerance requirements to Transco

Each bid will comprise:

Indication of tolerance type (overdelivery/underdelivery)

Gas Day

Bid quantity (kWh/day)

Price (p/kWh) to a precision of four decimal places

**Agreed**

- 1.3.2.1 The bidding window will be open from 06.00 on D-7 until 15.00 on D-1

**Agreed**

- 1.3.2.2 The day ahead auction will be conducted in a single round

**Agreed**

- 1.3.2.3 When the total quantities available for release on the Gas Day have been established all bids where the Bid Quantities exceed these quantities shall be scaled down to equal the relevant total availability and the Shipper's tolerance bidding screens will reflect this

**Agreed**

[1.3.2.4 The total quantity allocated to each Shipper for that Gas Day and tolerance type, shall not exceed:

[y] \* the total quantity available for release

This is the **Maximum Allocable Quantity]**

*“Anti hoarding” measures have not been agreed by the work group. Please see commentary following 1.2.5.8 above*

1.3.3 Bids will be validated prior to processing and allocation and a bid will be rejected if it fails this validation, which shall be against the following criteria:

1.3.3.1 Each Shipper will be permitted a maximum of twenty overdelivery and twenty underdelivery “live” day ahead tolerance bids

**Agreed**

1.3.3.2 This does not prevent a Shipper from adding, amending or withdrawing as many bids as it requires providing that at all times no more than twenty bids of each type for each round are posted by that Shipper for selection by Transco

**Agreed**

1.3.3.3 There will be a minimum bid quantity of 100,000 kWh

**Agreed**

1.3.3.4 All bid quantities shall be in multiples of 100,000 kWh

**Agreed**

1.3.3.5 The bid price must be equal to or greater than the reserve price and the reserve price will be 0 p/kWh

**Agreed**

1.3.3.6 A Shipper may not have more than one “live” bid at the same price for the same tolerance type for the same Gas Day

**Agreed**

1.3.4 For each tolerance type (underdelivery/overdelivery), valid bids will be accepted in price order beginning with the highest priced and continuing until the **Outstanding Quantity** (OQ) is less than 100,000 kWh or until no valid bids remain

**Agreed**

1.3.4.1 Within this acceptance sequence, if more than one bid to be allocated has the same bid price and the total bid quantity from all these same price bids is more than the Outstanding Quantity, these bids will be allocated as follows:

1. Sum the bid quantity of the remaining bids

i.e.

$$\sum_{i=1}^n BQ_i$$

2. Calculate the scaling factor from this summation and the Outstanding Quantity

i.e.

$$SF = \frac{OQ}{\sum_{i=1}^n BQ_i}$$

3. Multiply each individual bid quantity by the scaling factor. This is the Revised Bid Quantity ( $RBQ_i$ )

i.e.

$$RBQ_i = SF * BQ_i$$

4. For each such bid round the Revised Bid Quantities upwards to the nearest integral multiple of 100,000 kWh which becomes the quantity allocated to that Shipper in respect of acceptance of that bid
5. [Where, however, such an allocation would take any Shipper's total allocated quantity from all rounds to more than its Maximum Allocable Quantity, the Shipper's Revised Bid Quantity will be set so that the Shipper's total allocated quantity equals its Maximum Allocable Quantity. Such quantities will then be subtracted from the Outstanding Quantity and the process within this Section 1.3.4.1 for all other bids at the same bid price repeated.]

**Agreed**

*Step 5 is only required where the anti hoarding measures specified in 1.3.2.4 are implemented*

- 1.3.4.2 When there is one remaining bid for which the bid quantity is greater than the Outstanding Quantity the Shipper will be allocated the closest multiple of 100,000 kWh to the Outstanding Quantity

**Agreed**

- 1.3.5 Shippers will be notified of the outcome of the allocation process with respect to their day ahead underdelivery and overdelivery tolerances that they have secured for the Gas Day

**Agreed**

- 1.3.5.1 This notification shall be made on each Shipper's tolerance bidding screens by 15.30 D-1

**Agreed**

- 1.3.5.2 Transco will notify Shippers of the tolerance quantities that have been purchased by them for each tolerance type through the long term and day ahead tolerance screens

**Agreed**

## **2.0 Tolerance Trading**

### **2.1 Operation**

- 2.1.1 Transco shall operate on behalf of all Shippers a tolerance trading registration service for tolerance trades which have been conducted between two Shippers
- Agreed**
- 2.1.2 All trades shall be associated with one of two separate tolerance types:

**Underdelivery tolerance and**

**Overdelivery tolerance**

**Agreed**

- 2.1.2.1 Shippers will be able to register with Transco the results of trading underdelivery and overdelivery tolerances according to the following rules
- Agreed**
- 2.1.2.2 Transco will facilitate trading in respect of any Gas Day by permitting registration at any time after the completion of the first allocation process in respect of tolerances for that Gas Day

**Agreed**

- 2.1.3 The two Shippers in each tolerance trade are:

**The Disposing Shipper and**

**The Acquiring Shipper**

**Agreed**

- 2.1.3.1 The Disposing Shipper is seeking to register a transfer of tolerance quantity in order that the tolerance it has available is reduced by the quantity associated with the trade
- Agreed**
- 2.1.3.2 The Acquiring Shipper is confirming this registration in order that the tolerance it has available is increased by the quantity associated with the trade

**Agreed**

### **2.2 Registration of Tolerance Trades**

- 2.2.1 Trades will have been conducted outside Transco systems and will be registered providing that:

These trades pass validation

The Acquiring Shipper confirms the registration request made by the Disposing Shipper

**Agreed**

- 2.2.1.1 The following information must be input to the Tolerance Service Trading Screens of the Disposing Shipper

Gas Day or Gas Day Range details  
Tolerance type (underdelivery/overdelivery)

Offer quantity  
The Acquiring Shipper's ID

**Agreed**

- 2.2.1.2 These trade registration requests will be validated at the time of submission and rejected if

The submission has not been made by [23.59 on M+15(w)] [04.00 on D]  
Invalid codes or IDs are transmitted for tolerance type or counter party  
Shipper ID

*The work group has not agreed as to whether "after the day trading" of tolerances should be facilitated. Ofgem were asked to indicate their views on their preferred tolerance trading close out*

- 2.2.1.3 The Disposing Shipper will be notified at the time of submission of the reason for rejection if the request has failed validation

**Agreed**

- 2.2.1.4 When the request has passed validation, Transco will issue a unique **Offer ID** which will be displayed on the Disposing Shipper's registration screen

**Agreed**

- 2.2.1.5 The trade registration request screens will display a warning if acceptance of a tolerance trade would lead to the Disposing Shipper trading out more tolerance than it currently holds. Transco will, however, "permit" trades which have passed the validation detailed in 2.2.1.2 above and have been subsequently confirmed by the Acquiring Shipper even though it implies that the Disposing Shipper has disposed of more tolerance than it has acquired

**Agreed**

- 2.2.1.6 The following information will then be displayed on the Acquiring Shipper's registration confirmation screens:

Offer ID  
Gas Day  
Tolerance type (underdelivery/overdelivery)  
Offer quantity  
The Disposing Shipper's ID

**Agreed**

- 2.2.1.7 The Acquiring Shipper has until 04.00 on the Gas Day on which the Disposing Shipper made the registration request, in which to confirm the registration. After this time the registration will lapse but this will not prevent the Disposing Shipper making a further identical registration request on any day subject to tolerance trading close-out at [23.59 on M + 15 (w)] [04.00 on D]

*Please see commentary following 2.2.1.2*

- 2.2.1.8 Where the registration request has lapsed due to the Acquiring Shipper not confirming this request, the Disposing Shipper will be notified accordingly

**Agreed**

- 2.2.2 Transco will provide each Shipper with screen(s) which display the Shipper's prevailing tolerance trades and its tolerance position, taking

account of long term tolerance allocations, day ahead tolerance allocation  
and any confirmed registered tolerance trades

**Agreed**

### 3.0 Display of Price and Quantity Information

3.1.1 Transco will display, as soon as reasonably practicable after the completion of each long term auction round and the day ahead auctions for each tolerance type (underdelivery/overdelivery):

- Number of Shippers bidding
- Number of successful Shippers
- The total quantity on offer in that round
- The total quantity allocated
- The highest and lowest price bid accepted
- The weighted average price of the bids accepted as defined in 3.1.1.1 below

For the long term auctions this will be displayed for each month; for the day ahead auctions this will be displayed for the Gas Day concerned

**Agreed**

3.1.1.1 The weighted average price shall be calculated for each Gas Day in each month and for each tolerance type by the following procedure:

For all the n successful bids calculate the sum of the quantities accepted in the auction round for that auction type

i.e.

$$\sum_{i=1}^n Q_i$$

For these same bids, accumulate the product of the prices and quantities

i.e.

$$\sum_{i=1}^n Q_i * P_i$$

The weighted average price is then this accumulated product of prices and quantities divided by the total quantity sold

i.e.

$$\frac{\sum_{i=1}^n Q_i * P_i}{\sum_{i=1}^n Q_i}$$

**Agreed**

3.1.2 Transco will also publish information about the trading of tolerances (by Gas Day and for each tolerance type)

The number of Shippers trading  
The number of trades completed  
The total quantity traded

*Whilst Transco indicated that it wished to advise Ofgem of such instances, the broader community felt that this was not appropriate to include this provision in either these business rules or the Network Code. Shippers generally agreed that should Ofgem require such information then it should request such data from Transco*

*Whilst Transco advocated the maximum transparency of information to facilitate evaluation of the effects of the service on the overall operation of the energy balancing regime, Shippers felt that it was not appropriate to include explicit provisions in either these business rules or the Network Code.*

*It was suggested that if Ofgem required such information to evaluate regime performance it should request it from Transco*

#### 4.0 Cash-Out

*For April 2000 there will be no changes to the method of calculation of cash-out prices ( $SAP$ ,  $SMP_{buy}$  and  $SMP_{sell}$ ). It is expected, however, that the SMP prices may be revised in the future to reflect both the SAP and a flexibility element, perhaps derived from the tolerance auctions and/or a “within day” tolerance market*

- 4.1 From 1st April 2000, the tolerances derived from allocated inputs and DM/VLDMC outputs and the appropriate fixed factors will be discontinued  
**Agreed**
- 4.2 Each Shipper will continue, however, to have an **Imbalance Quantity (IQ)** determined by deducting “gas offtakes” from “gas inputs” and adjusting for trades  
**Agreed**
- 4.2.1 Where the Imbalance Quantity is negative, the Shipper will have an **Underdelivery Position** but where the Imbalance Position is positive, the Shipper will have an **Overdelivery Position**  
**Agreed**
- 4.2.2 The **Applicable Tolerance Quantity** will be the **Underdelivery Tolerance Quantity** in the event of an Underdelivery Position and the **Overdelivery Tolerance Quantity** in the event of an Overdelivery Position  
**Agreed**
- 4.2.3 For each tolerance type, the tolerance quantities (ie **Underdelivery Tolerance Quantity** and **Overdelivery Tolerance Quantity**) shall be equal to the total quantity acquired by the Shipper for that Gas Day as a result of the long term auctions, the day ahead auctions and the net quantity registered as acquired (acquisitions minus disposals) from tolerance trading  
**Agreed**
- 4.2.4 If either the Underdelivery Tolerance Quantity or the Overdelivery Tolerance Quantity is negative the Shipper will be subject to a Tolerance Excess Charge as identified in 4.3 below. The Applicable Tolerance Quantity shall be set to zero prior to the addition of the NDM Forecast Deviation (if applicable)  
**Agreed**
- 4.2.5 To this Applicable Tolerance Quantity the NDM Forecast Deviation shall be added if:
- The Applicable Tolerance Quantity is the Underdelivery Tolerance Quantity and the aggregate of the Shipper’s NDM UDQOs exceeded the Shipper’s final NDM Nomination Quantities
- or
- The Applicable Tolerance Quantity is the Overdelivery Tolerance Quantity and the aggregate of the Shipper’s final NDM Nomination Quantities exceeded the Shipper’s NDM UDQOs

**Agreed**

4.3 Where at the tolerance trading close-out, a Shipper has a negative Underdelivery Tolerance Quantity or Overdelivery Tolerance Quantity as a result of disposing of more tolerance than it has acquired the Shipper shall be liable to a **Tolerance Excess Charge** and the following rules shall apply:

**Agreed**

4.3.1 The Tolerance Excess Charge (TEC) shall be the Tolerance Overrun Rate (TOR) multiplied by the absolute value of the negative Underdelivery and/ or Overdelivery Tolerance Quantity (UTO/OTO)

i.e.

$$TEC = TOR * abs(UTO)$$

and/or

$$TEC = TOR * abs(OTO)$$

4.3.2 The Tolerance Overrun Rate shall be:

1.1 times the difference between SAP and the relevant SMP (ie SMP buy for underdelivery and SMP sell for overdelivery)

**Agreed**

4.4 If the Shippers “end of the day” imbalance is less than or equal to the Applicable Tolerance Quantity then the imbalance will be cashed out at the SAP for that Gas Day

**Agreed**

4.5 If the Shippers “end of the day” imbalance is greater than the applicable tolerance band then the imbalance will be cashed out as follows:

4.5.1 That quantity equal to the Applicable Tolerance Quantity will be cashed out at the SAP for that Gas Day

**Agreed**

4.5.2 The remaining imbalance will be cashed out at the applicable SMP price

**Agreed**

## 5.0 Invoicing

5.1 Shippers will pay for the tolerance purchased in the long term tolerance auctions as part of their Energy Balancing Invoice

**Agreed**

5.1.1 For the long term auctions this is envisaged to be in the Energy Balancing Invoice for the month to which the tolerances related

*The work group would prefer this approach rather than that based upon billing for “long term” tolerance sales as soon as practicable following completion of the auction(s)*

*This view will be relayed to the Energy Balancing Credit Committee who will be asked to determine whether it considers such an approach will have a significant impact on credit term requirements. If it does then the “bill as soon as reasonably practicable” approach should be adopted*

5.1.2 For the daily auctions (if any) this would be envisaged to occur in the Energy Balancing Invoice which would be raised in the subsequent month

5.1.3 Daily revenues from tolerance sales will be derived taking into account the daily amounts arising from the long term auctions to which payments for the Gas Day from the day ahead auctions will be added

5.1.3.1 Where on a Gas Day a Tolerance Excess Charge has been made in accordance with 4.3 above these payments to Transco shall also be included for revenue redistribution purposes

5.1.4 This total revenue derived from 5.1.3 and (where applicable) from 5.1.3.1 above is the **Daily Tolerance Income Total (DTIT)**

5.2 There are two alternative methods by which the Daily Tolerance Total can be allocated which are summarised in 5.2a and 5.2b below

*The work group on 6th January was divided on the approach to be used for revenue redistribution. Options considered by the group included the three options discussed in the “Tolerance Service Primary Income Redistribution” paper and the option of redistribution in the following Gas Year (or as soon as possible) via the “k” factor price control correction approach*

*Transco indicated that it intended to build functionality such that the “good balancers” approach could be readily implemented noting that the normal neutrality mechanism could be delivered by appropriate parameter setting. Implementation in such a way that the daily redistribution can be “turned off” to facilitate the alternative “k” approach is anticipated to be complicated since this would require the income from the primary sale to be regarded as Transportation Revenue for Price Control purposes.*

*Ofgem were asked to provide a provide a preliminary view on its preferred approach*

- 5.2a The Daily Tolerance Income Total shall be distributed in the ratio that each Shipper's  $UDQI_i$  and  $UDQO_i$  for the Gas Day holds to the Total System  $UDQI$  and  $UDQO$ . This ratio is the Redistribution Factor  $RF_i$

i.e.

$$RF_i = \frac{UDQI_i + UDQO_i}{\sum_{i=1}^s (UDQO_i + UDQI_i)}$$

Each Shipper will then receive for the Gas Day:

i.e.

$$DTIT * RF_i$$

- 5.2b The Daily Tolerance Total shall be distributed to “reward” Shippers in respect of their tolerance performance as determined in methods described in the Transco paper “Tolerance Service Primary Income Redistribution” which has been distributed separately.

**Appendix 1 Tolerance Availabilities by Month**

<b>Month</b>	<b>SNSD (GWh) 1999/2000</b>	<b>Monthly Availability Percentage</b>	<b>x factor</b>	<b>33% Availability (GWh)</b>
October	2,617	3.3	1.0	28.5
November	3,391	3.0	1.0	33.6
December	3,848	2.8	1.0	35.6
January	4,198	2.8	1.0	38.8
February	4,150	2.8	1.0	38.3
March	3,772	2.9	1.0	36.1
April	3,031	3.1	1.0	31.0
May	2,396	3.4	1.0	26.9
June	1,934	3.8	1.0	24.3
July	1,664	4.1	1.0	22.5
August	1,686	4.1	1.0	22.8
September	2,071	3.8	1.0	26.0

These SNSDs are taken directly from Table 2.2.1a in “Gas Transportation Charges from 1st October 1999”

This table gives the long term tolerance availabilities in each auction round assuming that there will be two rounds of 33% of the total tolerance available, making 66% in total. The day ahead auction would therefore, on an “average Gas Day”, make the remaining 34% available

Values for October to March are included to illustrate the availabilities which would have applied if the regime had commenced on the 1st October 1999.