

Draft Modification Report
Modification Reference Number 0228
Convergence of Balancing Tolerances

This draft Modification Report is made pursuant to Rule 7.4 (a) of the Modification Rules and follows the format required under Rule 8.12.4.

1. The Modification Proposal:

Balancing tolerances for VLDMCs (>50mtpa) are currently 3% while those for DMs are 8%. These tolerances were due to converge at 3% on 1 December 1997 but convergence was delayed until 1 June 1998 by Modification 0178a.

This issue was discussed at length as part of Review Group 0047, Imbalance and Scheduling Tolerances, prior to 1 December 1997, and was further discussed at the Energy Workstream on 9 April 1998. At this Workstream the majority of shippers agreed that DM supply points above 2 million tpa should converge to the previously agreed tolerance of 3% and DM supply points below 2 million tpa remain at 8%.

2. Transco's opinion:

Transco views all DM sites' convergence to 3% as desirable because tighter tolerances should encourage accurate and timely information flow between end users and shippers, incentivise accurate balancing, reduce system balancing actions, reduce the likelihood of extreme flexibility prices and lead to an overall reduction in neutrality costs. Transco demonstrated at the Energy Workstream that shippers can balance VLDMC and combined VLDMC/DM portfolios to within 3%.

The figures below demonstrate that cross subsidy in relation to those shippers needing to balance more accurately will be eliminated in respect of 14.54% of average system throughput and remaining cross subsidy will only apply to 3.59% based on 1997 figures, should this modification be implemented.

Site Classification	1997 % Total Throughput	Number of Sites
VLDMC	19.72	47
DMC	14.54	542
DMs below 2 mtpa	3.59	395

Greater latitude is proposed for sites below 2 million tpa to acknowledge the greater difficulty faced by shippers in forecasting and communicating with large numbers of small DM sites and because of the smaller impact on the operation of the system.

Cancellation of the NDM to DM conversion programme means that shippers will only be required to forecast for larger sites which can be achieved with greater accuracy and cost effectiveness. However, the reduced number of DM sites has eroded the benefits of diversity.

Some end customers have previously suggested a 3% tolerance to be too tight when imbalance charges are passed through by shippers based on the site's tolerances, however, this should not necessarily be the case as balancing is done at aggregate portfolio level. Shippers able to balance their portfolio accurately will benefit from reduced neutrality costs and these may be passed through to end users. Transco has further demonstrated the improved performance in terms of datalogger reads, which some shippers had seen as a prerequisite for convergence.

Therefore, this modification strikes a balance between encouraging and rewarding best practice, setting achievable targets, reducing cross subsidy amongst shippers and aims to reduce neutrality costs overall.

3. Extent to which the proposed modification would better facilitate the relevant objectives:

This modification incentivises DM shippers to take responsibility for balancing their own portfolios more accurately and encourages accurate and timely information flows between end users and shippers. This will aid Transco in taking the most appropriate balancing decisions, thereby enhancing the efficient operation of the system and reducing the level of untargeted costs.

The modification promotes a level playing field for shippers by eliminating a significant amount of cross subsidy between VLDMC and DM sites without seeking to impose an unreasonable level of balancing performance for smaller sites where forecasting is more difficult and the impact on the system is low.

4. The implications for Transco of implementing the Modification Proposal, including:

a) implications for the operation of the System and any BG Storage Facility:

Greater incentivisation for accurate shipper balancing and the encouragement of timely information flows between shippers, end users and Transco should enhance the efficient operation of the system.

Transco is not aware of any impact on any BG Storage facility.

b) development and capital cost and operating cost implications:

Costs will be negligible.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Not applicable.

d) **analysis of the consequences (if any) this proposal would have on price regulation:**

Transco is not aware of any impact on price regulation.

5. **The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal:**

The modification is broadly in line with the Network Code as originally envisaged and consequently Transco is not aware of changes to the level of contractual risk.

6. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

A minor change to Transco systems will be required. Transco is not aware of any changes for shippers' systems.

7. **The implications of implementing the Modification Proposal for Relevant Shippers:**

Shippers to DM sites above 2 million tpa will receive an imbalance tolerance of 3% in relation to those sites. Shippers to DM sites below 2 million tpa will continue to receive a tolerance of 8%.

8. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

Shippers may seek to improve communication with some end users. There may be some additional direct pass through of balancing costs to some end users and lower neutrality pass through.

9. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of implementing the Modification Proposal:**

Transco has not been informed of any consequences on the legislative and regulatory obligations and contractual relationships of implementing this modification.

10. **Analysis of any advantages or disadvantages of implementation of the Modification Proposal:**

Advantages: Elimination of a significant proportion of cross subsidy.
Reduced system balancing actions.
Reduced possibility of extreme flexibility prices.
Lower neutrality costs.

Disadvantages: A small amount of cross subsidy will remain.

11. **Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):**

[To be completed]

12. **The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation:**

This modification is not required to facilitate compliance with safety or other legislation.

13. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:**

This modification is not required to comply with the above clause.

14. **Programme of works required as a consequence of implementing the Modification Proposal:**

Only a minor change to Transco systems is required.

15. **Proposed implementation timetable (inc timetable for any necessary information systems changes):**

Draft Modification Report circulated to Modification Panel members, Shippers, and Non-Network Code parties seeking representations	24 April 1998
Close out for representations	18 May 1998
Modification Report to Ofgas	21 May 1998
Ofgas Direction for Implementation of Modification	26 May 1998
Modification implemented and effective	1 June 1998

16. **Recommendation concerning the implementation of the Modification Proposal:**

Convergence of all DM sites to 3% is currently scheduled to take effect on 1 June 1998, and therefore Transco recommends that this modification should be implemented by that date.

17. Text provided pursuant to Rule 7.3:

SECTION F : SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

Amend paragraph 2.2.2.(i)

'3% in respect of System Exit Points (other than NDM Supply Point Components or DM Supply Point Components where the Annual Quantity of the Supply Point is less than 58,600,000 kWh (2,000,000 therms)) and relevant Connected System Exit Points.....

Renumber paragraph 2.2.2.(ii) as paragraph 2.2.2.(iii)

Add new paragraph 2.2.2.(ii) to read as follows :

2.2.2.(ii) '8% in respect of DM Supply Point Components where the Annual Quantity of the Supply Point is less than 58,600,000 kWh (2,000,000 therms)

TRANSITION DOCUMENT PART II PARAGRAPH 8

Delete paragraph F.2.2.2.

Signed for and on behalf of Transco.

Signature:

John Lockett
Manager, Network Code

Date: 24/4/98