

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 313

SHORT TITLE: Modification of the Energy Balancing Regime Under BC99

DATE: 18/1/99

PROPOSED IMPLEMENTATION DATE: 1/10/99

URGENCY: Non-Urgent

NATURE OF PROPOSAL:

In summary this Modification Proposal will:

- Remove the matched renomination rule - subject to a satisfactory outcome of the trial proposed in Modification 0305.
- Allow Transco to source gas for residual system balancing purposes from the OCM.
- Introduce the concept within the Network Code of incentivising Transco in its role as residual system balancer and detail the incentive mechanism, consistent with Transco's level of discretion in its ability to source gas for balancing purposes.
- Formalise the role and interactions with an independent Market Operator which will facilitate Shipper to Shipper trading in a within day commodity market.
- Allow imbalance cash out calculated based only on actions in the OCM - however the current balancing tolerances and three price regime will be retained.
- Introduce phased scheduling charges to incentivise Shippers to provide accurate and timely information.
- Narrow the imbalance tolerances after the first six months of introduction of an OCM.

PURPOSE OF PROPOSAL:

The changes outlined above will support the introduction of an On The Day Commodity Market (OCM). This is an appropriate development of the Energy Balancing Regime designed to achieve a reduction in the costs of Shipper balancing and system balancing.

By introducing a market of this nature it may be possible to reduce the buy/sell spread currently experienced in the flexibility mechanism by sourcing gas from a more liquid OCM. This should lead to more price efficient balancing actions taken by Transco to address any residual system imbalance. Consistent with promoting efficiency Transco could be incentivised in its role as residual system balancer at a level consistent with its level of control and discretion.

For the OCM to operate effectively there should be as few barriers to trading as possible. One such perceived barrier is the current requirement to match renominations within day, a trial (Modification 0305) is anticipated to take place shortly to see if this rule can be removed without jeopardising Transco's ability to maintain a safe and secure system. If this proves successful,

Transco believes this rule should be removed as a way of promoting liquidity in the market.

Whilst Transco recognises the potential that more efficient balancing actions could be achieved with the introduction of the OCM, it also requires accurate and timely information from Shippers about their planned gas flows at both the day ahead and within day stages. To this extent this modification proposal provides for the introduction of Phased Scheduling to incentivise Shippers in respect of information provision during the day.

With the introduction of an OCM the methodology for calculating imbalance cash out will need to be revised; included is a proposal of how to achieve this to maintain sufficient Shipper incentives to balance their inputs and outputs each day and ensure delivery of trades concluded within the OCM.

The changes proposed in this modification proposal facilitate improvements in the provision of an efficient and economic transportation system.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

Should this modification not be implemented then the benefits of introducing an OCM will not be realised. This may lead to a less economic and efficient regime than is possible if the changes were implemented

AREA OF NETWORK CODE CONCERNED:

C,D,E,F,K - page and paragraph numbers not yet known

IDENTITY OF PROPOSER'S REPRESENTATIVE:

Phil Carter

PROPOSER :Tim Davis

SIGNATURE:

POSITION:Manager, Network Code

COMPANY:Transco

MODIFICATION PANEL SECRETARY'S USE ONLY

Reference Number:

Date Received: