

NETWORK CODE MODIFICATION PROPOSAL

SHORT TITLE: Incentive mechanism for NDM capacity apportionment

DATE: 18/08/99 **PROPOSED IMPLEMENTATION DATE:** 1/10/99

URGENCY: Urgent

JUSTIFICATION OF URGENT STATUS:

To incentivise Transco to perform accurate updates of information pertaining to capacity, particularly the Annual Quantity updates from 1/10/99. This modification is required to protect shippers and suppliers from further errors by Transco going forward, given the costs and exposure that the industry faced during 1997/8 and 1998/9 due to Transco errors. The modification, if approved, should become effective 1/10/99, regardless of the approval date. Transco should act to provide the correct data, as if this Modification proposal were in place. This proposal also requires urgent status due to potential Transco imposed constraints to raising of modifications and systems developments relating to Y2K.

NATURE OF PROPOSAL

There are four elements to this proposal:

Firstly, to define within the Network Code, the precise means by which Transco allocate NDM capacity at an individual supply point level. This is not clearly defined within the Code at present.

Secondly, Transco become responsible for the correction of identified problems on Sites & Meters and to the associated Registered User(s), relating to generic miscalculations of capacity (SOQ).

Thirdly, an incentive mechanism is put in place that is market related, transparent and reflective of the commercial exposure placed upon the Registered User through any such error. This is linked to the period for which any error exists and thus is in Transcos control to fix. This mechanism only applies for Registered Users whose capacity for any affected sites is overstated by a net positive amount.

Finally, Transco must rebate the exit capacity (NTS, LDZ) for the period identified where the error persisted. Currently, this is not permitted outside the ammendment window, reflecting an over-recovery within the transportation formula for this service.

Definition of EUC Calculation

The End User Category (EUC) for each meter point shall be assigned with reference to the winter consumption as calculated by the following:

Winter ratio = Winter consumption / AQ

Where winter consumption period reflects the monthly consumption between two actual or deemed meter readings taken between 1st December and 31st March each year.

It was the incorrect calculation of this element that caused the miscalculation of EUCs during 1997/8 and 1998/9.

Transco Correction of Data

Transco would be obliged to correct via SPA routes, any erroneous data on Sites & Meters as a result of its miscalculation and misallocation of capacity to a supply point. Such amendments must also keep data intact with their customers, so files would need to be provided to update shipper records. Transco would be required to act in a reasonable and timely manner to correct errors that it becomes aware of, with the following incentive mechanism to ensure such actions occur.

Incentive Mechanism

This modification places a transparent, market related liability on Transco where it incorrectly overstates the SOQ at a supply point. This adversely impacts the Registered User, particularly on capacity, specifically the need to provide for assets to cover peak demand.

$$\text{Incentive} = [\text{SOQa} - \text{SOQb}] * \text{Rho} * \text{RS} * (\text{Rh} / \text{Rho}) * \text{Days uncorrected} / 365$$

Where [SOQa - SOQb] is the difference in the peak capacity requirement between what was initially assigned (A), and the capacity under the correct End User Category (B). This number shall be positive or zero for each Registered User.

Rho is the pence per kWh for bundled Rough unit auctioned in 1999/00 (9.974 p/kWh).

RS is the Rough space, set at 66.5934 days space.

(Rh / Rho) is the indexation to keep this formula annually updated where Rh is the implied published bundled Weighted Average Price for Rough in the relevant year, and Rho is the Weighted Average Price for Rough in 1999/00.

Days uncorrected is the period for which the error is left uncorrected by Transco, from the 1st October each year, to the effective date of the updated data. This period is measured in calendar days and shall be greater than zero. Such period is within Transcos control.

Capacity Rebates

In the event of miscalculation and over-allocation of capacity by Transco, Transco shall rebate to the Registered User the overstated exit capacity for the period from 1st October to the day when the correction becomes effective. Where the Registered User changes within this period, the rebate will be made pro rata between the Users.

PURPOSE OF PROPOSAL:

To explicitly state within the Network Code, how Transco should allocate capacity using End User Categories and Winter Annual Ratios. To ensure that Transco act in a timely and reasonable manner to correct problems of its creation through a financial incentive on the provision of correctly calculated information relating to capacity and the associated risk and exposure that a Registered Users may face for each incorrectly calculated Supply Point. It will also ensure that any inflated capacity charges are rebated to the Registered User for the period the error exists.

This Modification proposal has been discussed, developed and is supported by companies including Scottish Power and British Gas Trading. Broad agreement on a common methodology was developed within the EUC Energy Sub group.

CONSEQUENCES OF NOT MAKING THIS CHANGE:

Transco may continue to erroneously calculate capacity elements that cause Registered Users increased cost and risk. To date, Transco have borne no liability or cost from this error.

Transco will not be acting in accordance with Condition 7.1 of its PGT Licence, 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.

AREA OF NETWORK CODE CONCERNED:

Section B, G, H, V

LEGAL DRAFTING:

To be provided by Transco

IDENTITY OF PROPOSER'S REPRESENTATIVE: Mark Dalton

PROPOSER: Mark Dalton

SIGNATURE:

POSITION: Commercial Operations Manager

COMPANY: Yorkshire Energy Limited

MODIFICATION PANEL SECRETARY'S USE ONLY

Reference number: 0354

Date recieved: 18/08/99