

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 357**

**SHORT TITLE:** Amendment to System Entry Overrun Charge in respect of Entry Capacity Entitlements based on a Seasonal Normal Demand Profile

**DATE:** 08/09/99      **PROPOSED IMPLEMENTATION DATE:** 1/10/99

**URGENCY:** Urgent

**JUSTIFICATION OF URGENT STATUS:**

This proposal has been raised to amend the provisions of Modification 0314 (Changes to Entry Capacity Entitlements based on a Seasonal Normal Demand Profile) which is to be implemented on 1st October 1999.

Network Code Modification 0314 introduces an overrun charge regime based on a “greater of” rule that is intended to incentivise shippers to acquire System Entry Capacity in order to deliver gas to the System. One component of this rule (paragraph 2.10.3 (iv)) sets a level that will be unknown prior to the close of the gas day. That is, the System Entry overrun charge may be determined by  $(1.5 \times D)$  where ‘D’ is the system average price for the day. On certain days where Transco, as balancing operator, requires significant volumes of gas to balance the system as a result of, for example, a failure of the NTS or a beach entry terminal, a shipper may wish to deliver gas to the system, via an accepted bid on the OCM, in the absence of registered System Entry Capacity. If this were to occur early in the gas day the shipper may assess the likely level of SAP and factor in the cost of the overrun in its bid. Subsequent increases in SAP could then result in the shipper suffering a financial loss. The risk of such loss may dissuade shippers from bidding in such circumstances.

Therefore, Transco believes that the introduction of a maximum limit to the system average price that can be used in this aspect of the System Entry overrun charge calculations is appropriate.

Given that shipper willingness to participate in the market is viewed as a factor in assessing the robustness of the revised regime and that the provisions of Modification 0314 will be implemented on 1st October 1999 it is essential that this proposal is treated as urgent.

**NATURE OF PROPOSAL:**

It is proposed that a “lesser of test” be included within B 2.10.3(iv) such that the overrun will be the lesser of:

1.5 times SAP for the gas day or;

the highest SAP in the 18 months preceding D-1.

**PURPOSE OF PROPOSAL:**

The maximum limit will allow shippers to price bids on the OCM at a level which ensures that if they do not hold adequate System Entry Capacity they will not suffer financial loss as a result of an unpredictable overrun. This ensures that when the system would benefit from gas delivered in the absence of system entry capacity, shippers can deliver gas with greater cost certainty. However, the level of the cap is such that in the vast majority of circumstances bids priced in this way would be uneconomic and the incentive remains to book System Entry Capacity.

The modification proposal seeks to introduce a ceiling on the system average price that will allow shippers to effectively price bids posted with the IMO. It is proposed that the ceiling will be based on the highest system average price seen during the period of eighteen months prior to the gas flow day in question.

The modification proposal will increase predictability for shippers when calculating potential overrun charges and consequently allow shippers to adequately price bids posted with the IMO in the absence of sufficient entry capacity. The modification proposal also removes any adverse incentives on shippers to flow gas, following the acceptance of a flexibility bid by the IMO, without obtaining sufficient entry capacity. The proposal should encourage shipper participation in the OCM, and further the economic and efficient operation of the system.

**CONSEQUENCE OF NOT MAKING THIS CHANGE:**

The potential for system average prices to increase significantly during any gas flow day introduces uncertainty among shippers when pricing bids and may deter shippers from making gas available on the OCM at such times when the system would benefit from controlled deliveries of gas in the absence of users holding adequate System Entry Capacity.

**AREA OF NETWORK CODE CONCERNED:**

Section B : System Use and Capacity

Paragraph 2.10.3 - to be effective from 1 October 1999 alongside Modification 0314

**IDENTITY OF PROPOSER'S REPRESENTATIVE:** Mark Ripley

**PROPOSER :** TIM DAVIS

**SIGNATURE:**

**POSITION:** Manager, Network Code and Pricing

**COMPANY:** Transco

**MODIFICATION PANEL SECRETARY'S USE ONLY**

Reference Number:0357

Date Received: 08/09/99