TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 373

SHORT TITLE: Changes to Shipper Tolerance, Cash out and Introduction of Tolerance Services

DATE: 11/11/1999 **PROPOSED IMPLEMENTATION DATE:** April 2000

URGENCY: Non-Urgent

JUSTIFICATION OF URGENT STATUS: N/A

NATURE OF PROPOSAL:

Following the introduction of changes to the Energy Balancing regime arising from Modification 0313 it is recognised that a number of additional changes to the regime may bring added benefits. The Ofgem publication "The New Gas Trading Arrangements: a decision document" (September 1999) indicated a range of changes that might be considered for April 2000 implementation. It is therefore considered appropriate for the industry to consider a Modification which contemplates the following changes:

- reduction of balancing tolerances in respect of beach input flows and DMC and VLDMC offtakes to zero,
- introduction of a primary sale via auction, and the potential for secondary trading, of balancing tolerances,
- implementation of a method of deriving cash out rates where System Marginal Prices are calculated to have differential values from SAP to reflect the underlying value of flexibility as demonstrated by prices extracted from balancing tolerance valuations,
- removal of the monthly cap and collar associated with Transco's Energy Balancing incentive.

PURPOSE OF PROPOSAL:

Presently Shippers have daily imbalance tolerance quantities that are calculated to include elements that are proportional to each of, aggregate input flows at beach terminals, Very Large Daily Metered Customers (VLDMC) and Daily Metered Customer (DMC) loads. Shipper use of these tolerances will depend upon the extent to which they have reliable within day data and their own commercial risk assessment. At present the approach to tolerance allocation does not necessarily efficiently allocate the available tolerance between Shippers.

By introducing a tolerance service as identified above it would be possible for Shippers to indicate the value of having different levels of tolerance which could facilitate the efficient allocation of the aggregate tolerance available. Additionally, this service might be used to establish a value for within day flexibility which could be used to derive cash out rates which better reflect the underlying cost of managing imbalances present on Transco's gas supply network.

By removing the monthly cap and collar associated with Transco's balancing incentive Transco will be exposed to more risk each month than it currently faces. This will maintain the pressure on Transco and could incentivise it further in its role as system balancer to develop the tools and approaches used to take economic and efficient balancing actions.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

Shippers will continue to have access to balancing tolerances in a manner which does not permit efficient allocation. The industry will forego an opportunity to establish a within day flexibility value which might better facilitate the setting of appropriate cashout prices.

By retaining the monthly cap and collar on Transco's balancing incentive Transco might face weaker incentives to seek out the most economic and efficient approach to balancing in its role as residual system balancer.

AREA OF NETWORK CODE CONCERNED:

Section D, E, F, S, and Network Code Supplement.

IDENTITY OF PROPOSER'S REPRESENTATIVE:

Nigel Sisman

PROPOSER: Tim Davis

SIGNATURE:

POSITION: Manager Network Code
COMPANY: BG Transco

MODIFICATION PANEL SECRETARY'S USE ONLY

Reference Number:

Date Received: