

TRANSCO WORKSTREAM REPORT

"Introduction of a Within Day Entry Profiling Charge"

Version 2.0

1 Background

This report describes further progress in respect of the Proposal following the April Modification Panel decision to refer the Proposal to the Energy Workstream for further development.

2 Context of discussions

Most Workstream participants disputed the urgency to promote change within the gas balancing regime pending completion of the “first analytical phase” of Review Group 0513 which is timetabled to complete late in May. Workstream participants stated that the wider range of attendees at the Review Group 0513 sessions would generate improved understanding of potential issues associated with the operation of the current gas balancing regime and, if appropriate, an increased likelihood of developing appropriate evolutionary proposals.

3 Identification of objectives & issues

The Workstream acknowledged that Transco’s objectives for the Proposal are to:

- encourage gas flows onto the system in line with the uniform flow rate principle applied to demand projections; and
- better target costs generated by within day input flow rate variations (rather than in respect of end of day gas balancing).

Whilst the Workstream endorsed the philosophy of developing commercial structures to encourage preferred behaviours, it was mindful that the structure of incentives should reflect the risks that Users can control and/or manage. Specifically, it was noted that it may be inappropriate to target costs at a level greater than that justified by available information. The Workstream supported the view that it may be better that some costs are managed at an aggregate level, and borne by all market participants on a shared basis

The Workstream noted a number of additional issues that needed to be considered in the context of the development of this Proposal including:

- the preference that incentive schemes should afford both the opportunity and likelihood of changes in within day behaviours in response to signals;

- the potential impact on within day trading;
- the feasibility of implementing the proposal in the context of currently available information, the accuracy of sub-daily measurement and adherence to the legal framework.

4 Workstream Development Discussion

Since the March 2002 Modification Panel the proposal has been extensively discussed at meetings on the 4th and 11th April.

The discussions covered two major areas.

Calculating profiled volumes that might attract within day entry profiling charges

At the 4th April meeting the Workstream considered that the original proposal did not recognise that input flow rate variations that tracked forecast end of day demand projections were likely to assist the economic and efficient operation of the system.

The 11th April session therefore considered a development that recognised the Transco preference for an input profile based upon the application of the uniform flow rate assumption to the end of day demand projection.

Concerns raised included:

- the extent to which Users would be able to manage gas flows to mitigate exposures with the scheme;
- the appropriateness of the incentive properties, whereby the revised proposition favours Users with diversified inputs who are more likely to have allocated input flows that closely match the reference profile to the disadvantage of those Users who might be flowing gas into the system at “flat” 1/24th rates or indeed those who are providing significant flexibility to the system;
- the appropriateness of targeting costs essential on a locational basis, effectively trying to “ring fence” costs rather than “cost target” to specific Users generating within day costs.

It was agreed that this approach did offer an improvement compared with the original proposal.

However, the Workstream considered that further development was required to try to address the above concerns.

Identification of within day costs

The Workstream recognised that the identification and attribution of within day and end of day balancing costs is difficult, and noted the system/energy balancing terminology.

Discussions focused on two alternative proposals.

The first involved using Transco “tagging” of balancing actions based on those identified by Transco as being required for system management purposes. It was agreed that current processes could be used and that the “tagging” could be used in an analogous way as “localised” actions are identified for cash-out price determination.

The second approach was based on a trade “tagging and matching” process perhaps based on the current electricity model. It was agreed that this was feasible although it might be appropriate to amend the matching process. The Workstream noted that unless Transco was active on both sides of the market then no within day costs would be identified. However, it was recognised that this might be an appropriate outcome when any actions taken would have been to address an end of day energy imbalance.

The Workstream noted that the Proposal only contemplated cost targeting at entry despite the fact that output flow rate changes may have contributed to the within day system balancing cost.

5 Workstream Recommendations

The majority view of the Workstream attendees was that whilst it was not appropriate to consider this Proposal in isolation from the discussions in Review Group 0513, it was not possible to refer this proposal to Review Group 0513. However the majority of Workstream attendees were of the view that this Proposal should be considered in parallel with, and within concurrent sessions, of Review Group 0513. The majority view was that a further development report in respect of this Modification Proposal should be made to the June Modification Panel.

Specifically the Workstream felt that the following additional issues require consideration before that report can be made:

- alternative approaches to define within day profile attribution;
- further consideration of the impacts of cost targeting and the potential for such targeting to induce User behavioural changes;
- further consideration of the potential impacts on within day trading.

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