

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0605
"Demand Side Contestable Services"
Version 3.0

Date: 13/12/2002

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Under the System Balancing (System Reserve) and Exit Investment Incentives within its Gas Transporter (GT) Licence, Transco is incentivised to reduce the cost of Operating Margins (OM) and Transmission Support (TS). Further, Transco is incentivised to minimise shrinkage gas costs, make efficient balancing actions and to minimise entry capacity buyback costs. To explore the potential to improve its economic and efficient operation under these incentives, Transco proposes to develop contestable demand-side service contracts. In future these may provide a substitute for existing OM and TS services, presently provided by Network Code Storage arrangements. The contracts would enable Users that presently offer a firm gas supply to consumers in certain geographical areas to offer that service to consumers on a limited number of days per annum interruption basis, and at the same time provide services to Transco.

Nature of Proposal

This Modification Proposal replaces Modification Proposals 0584 and 0585 and is being raised as a result of discussions that have been held with HSE, Ofgem and Shippers over recent months. Pending the submission of a material revision to its Safety Case, these discussions have led Transco to conclude that use of demand-side services should be facilitated for a wide range of applications, notably to include Energy Balancing as well as OM and TS to potentially allow it to better respond to its incentives in the interests of all industry participants. In the short term this may allow more efficient use of the demand-side services, as Transco does not anticipate reducing its storage bookings until such time as the effectiveness of demand-side contracts has been proven. Consequently, for 2003/04, the services will be supplementary to bookings capable of meeting the whole of Transco's OM and TS requirements.

Implementation of this Network Code Modification Proposal would enable Transco to enter into demand-side contracts and recover efficiently incurred costs via the appropriate mechanism.

When Transco exercises an option to call on one of these services, implementation of the Modification Proposal would allow Transco to recover the relevant proportion of the associated costs provided the costs were efficiently incurred. During the period when it cannot reduce the level of its storage bookings, implementation of the Proposal would allow Transco to recover the full costs of the demand-side services from Users.

It is intended that the contracting process would be consistent with the Procurement Guidelines, operated in accordance with the System Management Principles, and that the following two forms of contract would be used:

“Low-flow” – where the Service Provider would ensure that off-take did not exceed a specified rate, which would be below the equivalent supply point SOQ.

“Rate-change” – where the Service Provider would turn down the current flow by a set amount.

The form of implementation of these Service Contracts would be similar to those already adopted by Transco for entry capacity management.

Purpose of Proposal

Implementation of this Modification Proposal would allow Transco to obtain System Management Services from a number of sources including Users able to offer “Low flow” and “Rate change” services. This would be expected to:

Facilitate Transco's efficient and economic operation of its pipeline system; and
In widening the range of Users and other parties able to offer the proposed services, facilitate the securing of effective competition between relevant Shippers.

Consequence of not making this change

Transco would continue to deploy the present means of obtaining System Management Services, which would inhibit the development of alternatives which may prove to be more economic in meeting its requirements.

Area of Network Code Concerned

Section D - Energy Balancing
Section E - Daily Quantities, Imbalance and Reconciliation
Section F - System Clearing, Balancing Charges and Neutrality
Section K - Operating Margins
Section R - Storage

Proposer's Representative

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Proposer

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Signature

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