TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0696

"Removal of 1/15th capacity charge credit when interruption is for supply and demand balancing purposes. "
Version 2.0

Date: 14/05/2004

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Under the existing Exit Capacity Investment Incentive (ECII) Transco makes payments to Users based on 1/15th of the relevant annual NTS Exit and LDZ capacity charges for each day of Interruption at an Interruptible Supply Point in excess of 15 days during a 12 month period. All forms of Interruption, i.e. to relieve Capacity Constraints, Testing and Supply and Demand management, but not Emergency Interruption, trigger this credit.

Transco's primary use of Interruption is, and in Transco's opinion should continue to be, as a capacity management tool. The ECII is consistent with this position. NT&T Workstream discussions held on the 4th April 2004 recognised that it is inappropriate to apply Exit Capacity Investment Incentives, when Interruption is for Supply and Demand management purposes, as Transco is unable to mitigate such exposure through developments in exit capacity. Transco therefore contends that applying such a credit for Interruption for Supply and Demand does not better facilitate the efficient and economic operation of the pipe-line system.

Nature of Proposal

This Modification Proposal seeks to remove the payment of the 1/15th credit to Users of Interruptible Supply Points when Transco is required to call for Interruption to resolve a Supply deficit once it considers the market will no longer provide a physical response in an appropriate time period.

Purpose of Proposal

By removing an incentive for Users and End Consumers to wait for Transco to initiate Supply and Demand Interruption this Modification Proposal seeks to facilitate greater competition between Users by encouraging greater utilisation of market mechanisms to respond to Supply and Demand mismatches. If implemented, such an outcome may in turn better facilitate the efficient and economic operation of the pipe-line system, in that greater use of the market to balance Supply and Demand may reduce the requirement for Transco to take a primary balancing role by interrupting Supply Points for Supply and Demand management purposes.

Consequence of not making this change

Under prevailing balancing regime arrangements primary Supply and Demand balancing is the responsibility of User, with Transco's role being that of the residual balancer. Transco notes that interruption is one of the tools available to Users to undertake this primary role. It was also noted, during NT&T Workstream discussions, that the 1/15th capacity charge credit paid by Transco to Users for a day of Interruption may represent a disincentive for End Consumers to contract for commercial 'Shipper requested interruption'. Transco believes that this may be having a distortionary effect on the market, on days where supply and demand imbalances are at their greatest.

Area of Network Code Concerned

G - Interruptible Supply Points - 6.1.9 (b). This Proposal has been raised in conjunction with Pricing Consultation - 'Interruptible Transportation Charges' which, proposes changes to the Transportation Statement - Appendix 2 b that reflect this Modification Proposal.

Proposer's Representative

Claire Thorneywork (Transco)

Proposer

Richard Hewitt1 (Transco)

Signature

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