TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0699

"Amendment to Transco's interruption rights for supply / demand purposes"
Version 1.0

Date: 17/05/2004

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

At present, Transco can interrupt supply points as a capacity management tool, to match supply and demand in peak conditions and for testing purposes.

The level of interruption required for transportation constraints relates to the level of investment in the network. Ofgem introduced an incentive on Transco to minimize interruption for this purpose and requires Transco to make 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.

Transco has stated that its primary use of interruption should be as a capacity management tool. Transco has raised a modification proposal (M696)to remove the payment when it interrupts for supply and demand management purposes as it is unable to mitigate such exposure through developments in exit capacity.

Transco has suggested that there an incentive on Shippers to wait for Transco to initiate supply and demand interruption and proposes that greater use of the market should be used to balance supply and demand. While the proposer of this modification does not necessarily accept Transco's argument, it would appropriate to ensure that Transco does not over-rely on interruption to balance supply and demand and instead is encouraged to use the market as much as possible. As Transco can interrupt when demand is above the 85% threshold, it could be argued that shippers will not make sufficient arrangements to ensure that they are in balance during peak demand.

In Ofgem's recent cash out review document, it suggested a need to consider whether it is appropriate that Transco uses interruption contracts for supply-demand balancing, and if so whether these costs should feed through into the cash out price. By reducing the potential to use these contracts, Transco should be incentivised to use the OCM for supply/demand balancing which will ensure that any interruption properly feeds into cash out. We are aware that Transco is concerned that there will be insufficient offers available on the day but this modification is also designed to encourage Transco to contract ahead. Reducing the supposed incentive on shippers to wait for Transco to interrupt and any reliance that Transco may have on using interruptions for supply and demand purposes, should encourage shippers to enter into contracts which allow for commercial interruption in times of peak demand. These can, where

appropriate, be backed up by contracts between shippers and Transco to provide this gas through the OCM.

Nature of Proposal

This Modification Proposal seeks to amend the current 85% limit to [90%] from [April 2005] with a further amendment to [95%] from [April 2006]. This would provide sufficient time for shippers to be able to negotiate interruption rights with consumers or make other suitable arrangements to provide flexibility in times of high demand. By removing Transco's right to interrupt at lower demand levels, Transco will need to go to the market through the OCM or advance contracting if it believes this is necessary to ensure supply and demand balancing at the system level. By relying on the market, Transco will be properly incentivised to minimize its costs and price signals will be sent to shippers and thence to consumers about the value of their flexibility.

Purpose of Proposal

To ensure that Transco is properly incentivised to use market mechanisms as much as possible and to provide market signals to suppliers and consumers about the value of flexibility in times of high demand. If shippers are relying on Transco to institute interruption for supply/demand purposes, this should reduce reliance. Instead, shippers would be incentivised to balance their own portfolios, reducing the requirement for Transco to take actions (including interruptions). This will promote efficiency in Transco's operation of the system. Competitive between shippers will be promoted by ensuring that they compete to provide flexibility in times of high demand.

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 described by some as "residual balancer". Interruption is one of the tools available to Shippers to undertake their primary role. This modification may increase the value of commercial interruption thereby incentivising consumers to enter into such arrangements removing any current distortionary effects. Ofgem has separate stated that it believes that more commercial interruption can help resolve emergencies and this modification, by encouraging commercial interruption , should therefore improve security of supply.

Area of Network Code Concerned

Section G

Proposer's Representative

TANYA Jean Morrison

Proposer

Shell Gas Direct

Signature

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