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URGENT MODIFICATION PROPOSAL**Amendment to SMP Pricing****Date** : 10 February 1997**Proposed Implementation Date** : Immediately**Urgency** : Urgent**Justification** : The modification will give all shippers an incentive to balance their inputs and outputs, and reduce overall neutrality costs.**Consequence of not making this change** : Neutrality charges will continue to be high, as the cost of shippers not balancing is borne by the whole shipping community, rather than those out of balance.**Area of Network Code Concerned** : Principal Document, Section F**Nature of Proposal** : Modification 0066 changed the SMP prices so that if no flexibility is taken on a day, the SMP price is the same as the SAP price. On days where only system buy is taken the SMP Sell price is the same as the SAP, and on days where only system sell is taken the SMP Buy price is the same as the SAP. This in effect resulted in the current situation where there is an economic incentive for shippers to go out of balance - delivering gas outside their SAP tolerance band.

There is also a secondary effect of a reduced incentive to place flexibility bids because a similar return can be achieved by simply changing delivery rate after other shippers' flexibility bids have been accepted. Where a high SAP price is set, shippers are encouraged to over deliver, and where a low SAP price is set, shippers are encouraged to under deliver.

It is proposed that with immediate effect, on days where no SMP Buy price is set by virtue of system buy flexibility gas being taken, the SMP Buy price is 125% of that days SAP, and where no SMP Sell price is set, the SMP Sell price is 75% of that days SAP.

Purpose of Proposal : To give shippers an incentive to balance their demand and supply within their tolerances for the day, reduce the need for system buys and sells on the same day, and reduce the associated neutrality costs caused by high changes in linepack and LDZ stock from one day to the next.

Proposed Text : Principal Document, Section F, Para 1.2.2

1.2.2 Subject to paragraph 1.2.3, where for any Day no Flexibility Bid (or none other than one excluded for the purposes of paragraph 1.2.1) was accepted by TransCo:

- (b) for a System Buy, the System Marginal Buy Price for that Day shall be 125% of the System Average Price (in accordance with paragraph 1.2.1 or paragraph (a)) for that Day;
- (c) for a System Sell, the System Marginal Sell Price for that Day shall be 75% of the System Average Price (in accordance with paragraph 1.2.1 or paragraph (a)) for that Day;

Proposer : Jo Sommers

Signature : 

Position : Trading/Flexibility Analyst

Company : British Gas Trading Ltd