

**Urgent Modification Proposal 0275**

Adjustment to the way in which balancing neutrality is recovered during times of terminal constraints and an inclusion of a liability payment on Transco of a proportion of the balancing neutrality charged
Decision

06 January 1999

Present Position

An entry transportation constraint is imposed when Transco will not allow gas shippers to put gas into the pipeline system where shippers would want to bring in gas. Transco is able to use the flexibility mechanism to address such a constraint by selling gas on one side of a constraint and then buying gas back on the other side of the constraint.

Entry transportation constraints have generated significant costs to all shippers on the NTS (National Transmission System). Under existing Network Code provisions, shipper nominations that exceed the physical capability of a terminal result in Transco selling gas via the flexibility mechanism to nominating shippers at that terminal. These balancing neutrality costs are recovered from all shippers in proportion to 50% of their beach gas inputs (and storage inputs), and 50% of their site outputs (and storage). Shippers are therefore obliged to pay a proportion of the costs whether or not they are allocated gas at a constrained terminal.

Proposal

It has been proposed by United Gas that when a constraint arises, Transco will pay 10% of the balancing neutrality charge arising on that day to the shipping community in direct proportion to the amounts invoiced to each shipper on the constrained day. The remaining 90% is to be picked up from the shipping community.

The balancing neutrality charge will be recovered from shippers in proportion to 50% beach inputs specific to the location of that constraint, 25% from all beach inputs, and 25 % from all outputs.

Possible Impact on Customers

Any change in shipper costs may ultimately be passed onto customers, however changes will only directly affect some very large customers.

Ofgas' Decision

Ofgas agrees with Transco that this modification should not be implemented as it does not retarget smearing costs arising from constraints, it retargets all smearing costs on days that constraints occur. This is not appropriate. However, the energy and capacity workstreams should develop a proposal that retargets the smearing costs arising from constraints along the same lines as the proposal, ie. a redistribution between terminals and between inputs and outputs and a proportion of the costs to be borne by Transco.

Further Information

The Transco contact is Steve Adams on 0121 704 0374.

The Ofgas contact is Tahir Majid on 0171 932 1669.

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From: John Guiney

Date: 06 January 1999

Time: 14:25

No. of pages to follow: 2

If there are any problems, please contact: John Guiney

on: 0171-932-1694

Please note our new fax number: 0171-932-1600

Please find enclosed customer decision letters for modifications;
0275, "Adjustment to the way in which balancing neutrality is recovered
during times of terminal constraints and an inclusion of a liability
payment on Transco of a proportion of the balancing neutrality
charged"

0308, "Measures to Cater for possible Terminal Constraints at St.
Fergus".

If you have any queries please do not hesitate to contact me.