

Short Title: 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.

Date: 2nd October 98 **Proposed Implementation Date:** Immediate

Urgency: Urgent procedures requested

Justification:

This modification proposal is raised in response to industry concerns over the balancing neutrality charge currently being incurred as a result of transportation constraints at the St. Fergus terminal.

Under existing Code provisions, where nominations received exceed the physical capability of the terminal, Transco sells gas via the flexibility mechanism to nominating shippers at the terminal. The difference between the sell price and the value of the gas elsewhere on the system generates costs. Currently balancing neutrality costs are recovered from 50% of beach gas inputs (and storage inputs), and 50% of site outputs (and storage).

There is a "dynamic" relationship between where gas is input on the system, where demand occurs on the system, and where constraints arise. All shippers moving gas through the transmission system are contributing in part to the effects of a constraint. Therefore, a shipper should pay a proportion of the costs whether it has been allocated gas at a constrained terminal or at an unconstrained terminal. A shipper should also pick up a percentage of the costs if it has offtaken gas from the system regardless of whether it has or has not physically inputted gas into the system via a terminal.

This proposal changes the methodology by which an individual shipper's balancing neutrality charge is calculated on days of terminal constraints, so that recovery of the charge is targeted predominately at the constrained terminal.

Transco has statutory obligations to develop an efficient and economic system. Only Transco can develop the necessary services and cost structures to address problems caused by constraints. Currently Transco can avoid further investment and maintenance by taking constrained bids at terminals. This modification proposes that Transco undertake to pay a percentage of the costs incurred during times of terminal constraints. The community will recover Transco's proportion of the cost through a liability payment. Transco would then be incentivised to operate and invest in the system in such a way as to minimise transportation constraints, rather than be protected from any sub-optimal operation.

Consequence of not making this change:

The impact of the continued high level of costs caused by terminal constraints will be to the detriment of competition in shipping and supply.

Area of the Network Code concerned:

Section F4: Balancing Neutrality Charges

Proposed Legal Text

~~4.2.4 Balancing Neutrality Charges shall be invoiced and are payable in accordance with Section S.~~

4.2.4 On days when Transco takes a constrained input system sell bid from the flexibility mechanism, the relevant User Balancing Neutrality Charge will be paid by each relevant User in accordance with paragraph 4.2.7.

4.2.6 For each relevant User the Balancing Neutrality Charge shall be calculated as the Unit Daily Neutrality Amount multiplied by 50% of the sum of the relevant User's relevant UDQIs at the constrained terminal; 25% of the sum of the relevant User's relevant UDQIs; and 25% of the sum of the relevant User's relevant UDQOs.

4.2.7 Balancing Neutrality Charges shall be invoiced and are payable in accordance with Section S.

7 **Constrained Balancing Neutrality Liability**

7.1 On days when Transco takes a constrained input system sell bid from the flexibility mechanism, Transco shall pay to each relevant User 10% of the Balancing Neutrality Charge in proportion to the invoiced quantities as calculated in paragraph 4.2.6.

Nature of proposal:

The modification proposes that on days when Transco signals a terminal constraint and sells gas via the flexibility market, the balancing neutrality charge arising on that day will be recovered from 50% beach inputs specific to the location of that constraint, 25% from all beach inputs, and 25% from all outputs. Transco will pay a liability payment, equal to 10% of the balancing neutrality charge arising on that day, to the community in direct proportion to the amounts invoiced to each shipper on the day. This will ensure that constrained balancing neutrality charges will be recovered 10% from Transco and 90% from the community.

It would be inappropriate to include this liability payment on Transco in the liability cap that currently exists in the Network Code. This is consistent with the Director General's conclusions to 'Transco's Standards of Service' as set out in September 1998 but would be subject to Ofgas approval.

Purpose of proposal:

This modification proposal would allow for better targeting of costs during times of terminal constraints.

Proposer: Adrian Leaker

Signature:



Position: Trading Operations Manager
Company: United Gas Services Ltd

Reference N^o: 0275

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