

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0527
"Introduction of a Within Day Exit Profiling Charge and an Exit Failure to Notify Charge"
Version 1.0

Date: 15/01/2002

Proposed Implementation Date: 01/05/2002

Urgency: Non-Urgent

Justification

Transco has observed an increase in within day NTS linepack movements since the introduction of revised gas trading arrangements. Such variations have arisen as a result of the increased divergence between the rate at which gas is offtaken from, and input to, the NTS, and also, the increased tendency for large loads, connected directly to the NTS, to change their rate of offtake at little or no notice to Transco. Differences between NTS input and output rates generates linepack variation. Large unexpected changes in offtake could jeopardise the safe and secure operation of the system if Transco does not have sufficiently accurate nomination information to enable it to manage linepack variations or to take actions to maintain linepack within acceptable tolerances.

In the interests of efficient capital investment, and reflecting its expected use as a bulk transmission pipeline, the design philosophy of the NTS and the Network Code (Section C 1.9) have assumed that flow rates will be spread evenly across the remainder of the day taking account of effective time of any daily demand forecast change. The NTS has therefore been designed with sufficient linepack margin to cover only forecast demand changes and associated minor delays in "matching" input flow changes, limited supply failures, prudent provision for pipeline and plant failure, and some diurnal storage provisions to the LDZs as a result of investment optimisation by Transco.

Under NExA provisions, Shippers are required to provide Offtake Profile Notices (OPNs) to Transco. The OPNs specify the intended rates of offtake (Section J 4.6.1). Generally, initial OPNs are submitted on or before 17.00 D-1, and thereafter the OPNs are revised as and when required, by the User, throughout the Gas Day.

Based on these OPNs Transco will take actions to ensure that the local NTS linepack is within appropriate tolerances to be able to accommodate the requested changes. Therefore it is very important that the OPNs are an accurate representation of Users' intended flows. If actual flows turn out to be different to the rate specified in the OPN, then this could put at risk the supply to other customers, and ultimately may result in a national gas supply emergency.

The NExAs also specify the Notice Periods that are required to be given to Transco, by Users, of any change in the Offtake Rate. The notice periods in each NExA are designed to achieve a

balance between allowing the User sufficient flexibility to vary its offtake to meet its requirements, and the need to allow Transco sufficient time to be able to take action to ensure that the change in offtake rate can be accommodated. The actions Transco may need to take include bringing on additional compression, adjusting existing compression and/or grid reconfiguration and switching demand between feeders.

Because of the diversity in demand within the system, it is often possible for Transco to agree to changes in offtake rate at shorter notice periods than those specified in the NExA. However, any such additional agreed flexibility may generate additional costs that, under the current regime are not targeted at those Users generating such costs. These costs are incurred through Transco's actions, such as use of additional compression.

Transco considers it appropriate to ensure that commercial arrangements promote behaviours that are consistent with compliance with NexAs and with the accurate provision of nomination information. This proposal will charge Users for the provision of any additional flexibility beyond NEXA provisions.

Nature of Proposal

The purpose of this proposal is to provide greater commercial incentives on Users to provide more accurate forecasts of their offtake and to give notice periods for any changes to offtake rates consistent with NEXA terms.

It is proposed to introduce two charges with regard to all NExA Supply Points supplied off the NTS or LDZ, be they either NExA Supply Meter Points or Connected System Exit Points, that are required as part of their NExA contract to supply Transco with an Offtake Profile Notice in accordance with Network Code Section J 4.2.1, 4.6 and 5.8.1:

1. A Failure to Notify Charge, which is intended to place an incentive on Users to provide accurate information via the Offtake Profile Notification (OPN), and to deconvolve the creation of costs by changing offtake rates without appropriate notice.

The quantity of energy that will be subject to the Failure to Notify Charge (FTNC) will be calculated on the basis of the aggregate difference between the Offtake rate notified via the OPN (NVOL), and the actual telemetered offtake rate for each hour in a Gas Day (ACVOL).

Circumstances in which the Failure to Notify Charge (FTNC) will apply:

If the actual offtake, in any hour in the Gas Day, is above, or below, the notified and agreed offtake rate (via the OPN), then the FTNC will apply to the difference between the notified and agreed quantity of energy and the quantity of energy actually offtaken.

2. An Excess Profiling Charge, which is intended to incentivise Users to adhere to the Notice Periods specified in the NExA.

The quantity of energy subject to the Excess Profiling Charge (EPC), will be calculated on the basis of the difference, in each hour, between the Offtake rate permitted under the applicable NExA (PVOL) and the Offtake rate notified via the OPN and agreed to by Transco (NVOL) when a rate change is requested beyond the terms of the NEXAs.

Circumstances in which a Excess Profiling Charge (EPC) will apply:

Users requiring to change their rate of offtake should, as far as possible, adhere to the notice periods specified in the NExA. However, if a User wishes to change the rate of offtake at shorter notice, then it should submit an OPN specifying this requirement.

If operationally acceptable, Transco will agree the change of rate at shorter notice. If not operationally acceptable, Transco will reject the OPN and contact the site to request a revised OPN.

Users should note that although Transco might accept a change of rate of offtake at shorter notice than that specified in the NExA, the Excess Profiling Charge (EPC) would still apply to that quantity of energy offtaken in excess of the NExA permitted quantity.

Calculating the Charge for each User:

The following illustrates the proposed basis for the two charges, based on the nomination, renomination and actual offtake for an hour in the day:

Initial OPN = 20

Based on the Initial OPN, the NeXa permitted increase = PVOL = 45

Notified and agreed quantity (via OPN) = NVOL = 60

Actual offtake quantity = ACVOL = 80

The Failure to Notify Charge (FTNC) will apply to the volume ACVOL - NVOL = 20

The Excess Profiling Charge (EPC) will apply to the volume NVOL - PVOL = 15

Charge Calculation

The charge for each hour will be calculated as follows:

Failure to Notify Charge (FTNC)

This charge is intended to incentivise Users to provide accurate nomination information and avoid changing offtake rate without any renomination. The proposed charging basis is to apply a unit charge of the SAP/SMP differential (or a multiple thereof) to a quantity difference between “actual” and “nomination” as follows:.

Hours where ACVOL > NVOL

$$(ACVOL - NVOL) * [(SMP \text{ buy} - SAP) * SFB1]$$

Hours where ACVOL < NVOL

$$(NVOL - ACVOL) * [(SAP - SMP \text{ sell}) * SFS1]$$

Where:

ACVOL = Integrated quantity of gas offtaken taken in the hour (calculated as an energy value)

NVOL = Notified Quantity of gas for the hour (calculated as an energy value)

Excess Profiling Charge (EPC)

The proposed charge price is the SAP/SMP cash-out differential or a multiple thereof. It seems appropriate, given that Users are utilising the additional flexibility, over and above that agreed under the NExA, that a charge reflective of system flexibility should be applied.

For notified Increases:

Hours where NVOL > PVOL

$$(NVOL - PVOL) * [(SMP_{buy} - SAP) * SFB2]$$

For notified Decreases:

Hours where NVOL < PVOL

$$(PVOL - NVOL) * [(SAP - SMP_{sell}) * SFS2]$$

Where there is more than one User registered to a NExA Supply Point the aggregate Failure to Notify Charge and the Excess Profiling Charge will be apportioned to each User in proportion to their closed out energy allocations.

Initially, it is proposed to set SFB1 , SFS1 , SFB2 and SFS2 to one.

All of the revenue arising from such charges will contribute to Balancing Neutrality.

Purpose of Proposal

The purpose of this proposal is to provide greater commercial incentives on Users to give Transco prior notice of changes in offtake rate and to target the cost of any additional profiling at those Users utilising this flexibility. This should result in greater certainty regarding physical flows and therefore more efficient system operation.

Consequence of not making this change

If the proposed change is not implemented, Users will continue to have little incentive to provide accurate information via their OPNs and, as a result, the current level of risk to the safe and secure operation of the system from large un-notified changes to offtake rates will continue. Also, any further deterioration in linepack variation may result in inefficient system balancing actions and the generation of costs that are poorly targeted.

Area of Network Code Concerned

Section J : Exit Requirements

Proposer's Representative

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Proposer

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Signature

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