

TRANSCO WORKSTREAM REPORT

"Introduction of a Negative Firm Overrun Charge"

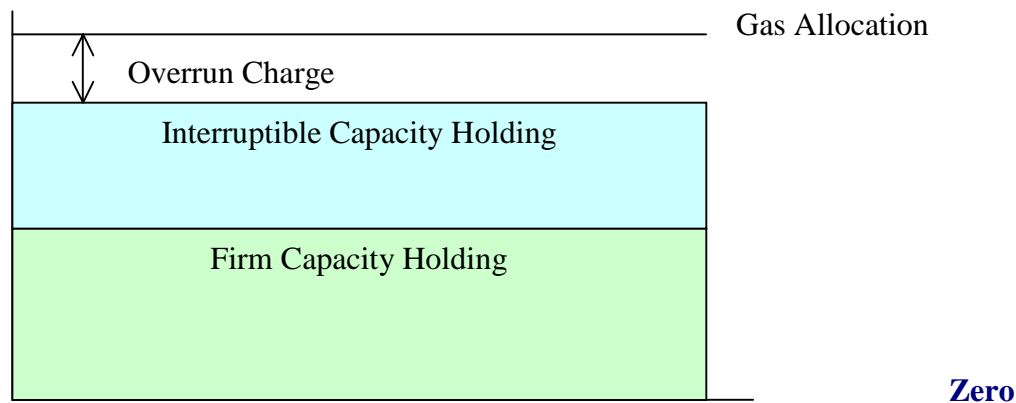
Version 1.0

Workstream Report for Modification 0554

Modification Proposal 0554 was discussed at Workstream meetings on 27th June and 4th July. Users sought clarification about how the proposal would be applied. Russell Cooper clarified that the proposal retained the present end of day measurement principles. The following diagrams were presented in order to explain the differences between the existing Overrun and Negative Overrun charges and the proposed Negative Firm Overrun charge:

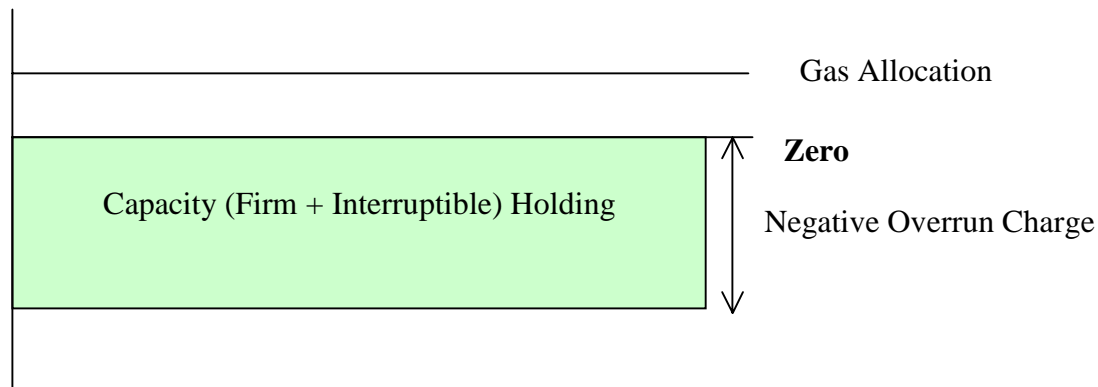
Existing Overrun Charge:

Applied to the quantity by which a Users gas allocation exceeds its capacity holding (firm plus interruptible).



Existing Negative Overrun Charge:

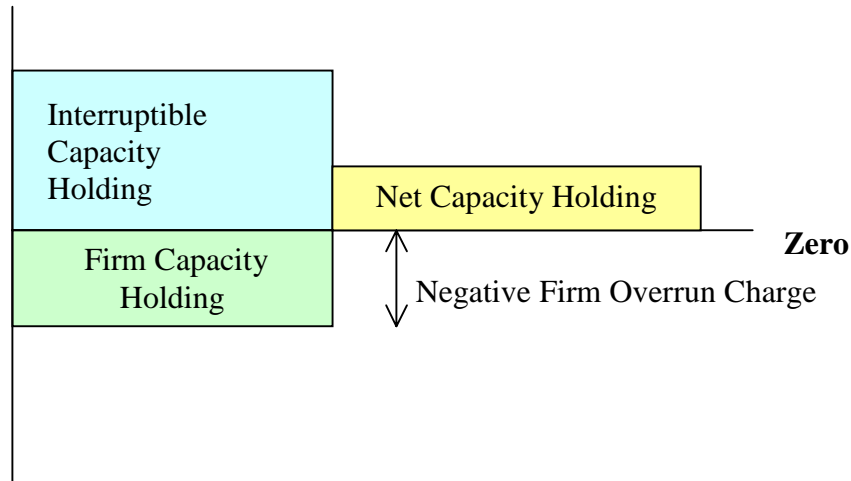
A negative overrun charge is applied if a Users holding of capacity (firm plus interruptible) is less than zero at the end of a gas day.



Proposed Negative Firm Overrun Charge

Problem: It is possible for a User to purchase Interruptible capacity for a gas day, then part way through the gas day it could trade on some of the capacity under the guise of a firm capacity trade. The risk to the seller is minimal if the quantity of firm sold is no greater than $n/24$ times its interruptible holding, where n is equal to the number of elapsed hours in a gas day. In this instance no overrun charge would be due because the present charge is based on holdings of firm plus Interruptible capacity. However the stock of firm capacity will have been increased beyond the level that Transco released through its primary release process. Consequently if capacity management is required then Transco is likely to need to buy-back a greater volume of firm capacity. The costs of which are shared between Transco and Users.

Solution: The proposal is that a negative holding of firm capacity at the end of a gas day should be liable to overrun charges which are set at the same rate as other overrun charges. In order to avoid double counting with the existing negative overrun charge it is proposed that a greater of rule is applied to the overrun volumes (ie take the highest volume identified by the present negative overrun charge or the proposed negative firm overrun charge).



Following this explanation, the Workstream recommended that the proposal should go straight to consultation and requested that Transco should initiate a postal vote of Modification Panel members to that effect.