

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0554

"Introduction of a Negative Firm Overrun Charge"

Version 1.0

Date: 18/06/2002

Proposed Implementation Date: 01/10/2002

Urgency: Non-Urgent

Justification

Over the winter of 2001/02 and continuing into summer 2002, Transco is aware that a number of Users have traded more firm entry capacity than they hold, using interruptible entry capacity to ensure that they maintain a positive end of day entry capacity holding. This activity effectively increases the total quantity of firm capacity beyond that released by Transco, because the accrued rights for interruptible capacity cannot be scaled (e.g. at 18:00 within day, a User's end of day interruptible capacity holding cannot be reduced by more than 50%, even if a 100% scaling factor is input). Therefore Users are effectively able to trade interruptible capacity as a firm product.

These actions result in an increase in the level of firm capacity available to the market above that which Transco released and therefore potentially an increased buy-back requirement should constraints arise. This may lead to increased costs for both Users (via capacity neutrality) and Transco (via its buy-back incentive). Such additional costs would not materialise if the creation of "virtual" firm capacity from the conversion of "accrued but unused" interruptible capacity via User to User within-day capacity trading did not occur.

Nature of Proposal

It is proposed to introduce a new overrun charge to be applied to Users that end the day with a firm capacity holding less than zero. The new charge would be in addition to the standard overrun charge levied if a User's gas allocation exceeds its net capacity holding and would apply on a "greater of" basis with the existing negative overrun charge. The price used would be the same price as that used for the existing overrun charges and any revenues would be treated in the same way as other revenues from overrun charges.

The proposal would be implemented with effect from 1st October 2002.

Purpose of Proposal

This proposal would increase the efficient and economic operation of the entry capacity regime and therefore furthers the relevant objective Standard Condition 7(1)(a) of Transco's GT Licence.

Consequence of not making this change

There would continue to be no incentive on Users not to effectively create additional firm capacity by trading interruptible capacity as firm, potentially resulting in additional buy back costs for Transco and Users.

Area of Network Code Concerned

Section B

Proposer's Representative

Heather J Lockyer (Transco)

Proposer

Tim M Davis (Transco)

Signature

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