

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0652
"Revision of Supply Point Ratchet Charge Multiplier for Gas Year 2003/4"
Version 2.0

Date: 18/09/2003

Proposed Implementation Date: 01/10/2003

Urgency: Urgent

Justification

Urgent Status

It is proposed that this Modification Proposal be granted Urgent status by the Authority because of the financial consequences that a number of Users could face as a result of the Supply Point Capacity Ratchet rules that will apply from 1st October 2003. Hence, to mitigate these financial consequences, it is desirable that implementation date of this proposal should be no later than 1st October 2003 to align with the date on which Supply Point Ratchet Charges for Winter period 2003/4 could first be incurred.

Proposal

This proposal has been raised in response to Modification Proposal 0645, raised by BP Gas Marketing Ltd on 19th August 2003, and is intended to address the concerns of BP raised therein.

BP's principal concern is that under the current regime, circumstances could arise that would result in a User being liable for Ratchet Charges that, in its opinion, would be inappropriately high and could be construed as unduly severe. While Transco believes that incentives to drive commercial behaviour are appropriate, under the circumstances described in BP's proposal, it is also of the view that the existing regime could be moderated. Consequently, Transco has raised this proposal to reduce the Ratchet Charge multiplier for all Ratchet Charges.

Should this proposal be implemented, ratchet charges would be targeted on those Users with Supply Points where the User Daily Quantity Offtaken ("UDQO") exceeds the Provisional Maximum Supply Point Capacity ("PMSOQ") consistently. For supply points where a straightforward breach of Supply Point Capacity occurs, a User would pay significantly less in ratchet charges than is the case under the existing regime. In the circumstances that several Users find themselves currently, Transco believes that moderation of these charges would be appropriate for the coming Winter period.

In respect of the anticipated concerns of Users that do not have any DM Supply Points in their portfolios, Transco is of the opinion that with a prompt implementation time-scale, coupled to the existing rule that prevents a User reducing the Supply Point Capacity below the previous Winter's maximum UDQO (the "bottom stop rule"), there is minimal scope for a User to reduce its Supply Point Capacity bookings and avoid a proportion of its capacity related charges.

The value of the multiplier was arrived at during discussions at the NT & T workstream held on 17th September 2003. The view of the workstream was that a value of 0.01 would generate Ratchet Charges that represent the avoided annual capacity charge plus a premium for continual PMSOQ breaches. The value of 0.01 represents a 4-day capacity charge, which when applied to a continual breach over the Winter period, approximates to twice the annual capacity charge, although this does depend on the individual seasonal profile of the offtake. Should the proposal be implemented, the view of the Workstream was that the resulting charges would be seen as being proportional to the avoided capacity charge and, therefore, appropriate, but only on a temporary basis.

This value would also be applied to breaches of SOQ below the PMSOQ. Here the view of the workstream was that the existing rules regarding Supply Point Capacity bookings, coupled to the fact that the User would then pay for the capacity at the high level on an ongoing basis, would continue to provide an incentive to book Supply Point Capacity appropriately for Winter period 2003/4.

Nature of Proposal

For the period 1st October 2003 to 31st May 2004, to reduce the value of the Supply Point Ratchet Charge multiplier to 0.01, (current value 2).

Purpose of Proposal

The purpose of the proposal is to provide a temporary solution to the issue of repeated breach of a Supply Point' PMSOQ and the associated financial consequences. This proposal provides a pragmatic solution to the issue of repeat ratchet charges in the short term by retaining a modest incentive over the Winter thereby giving Users the opportunity to resolve individual Supply Point issues over the medium term. Transco is of the opinion that implementation would serve to facilitate a less risky and, therefore, more competitive environment to operate.

Consequence of not making this change

Where a User is offtaking more than the PMSOQ at a Supply Point, it will incur a ratchet charge, based on a multiplier of 2, for every Day UDQO exceeds the PMSOQ. Under such circumstances there is scope for Users, in aggregate, to accumulate considerable, Supply Point Ratchet Charges.

Area of Network Code Concerned

Section B4.7.6. (Due to temporary nature of the proposal the rule would be included in the Transition Document Part II).

Proposer's Representative

Alan G Raper (Transco)

Proposer

Sharon D McLaughlin (Transco)

Signature

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