

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0631

"Removal of INS Charge"

Version 2.0

Date: 16/05/2003

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

The incentivised nomination scheme (INS) was introduced in October 2002 through modification 0479 (M479). The justification for introducing the charge was that it would provide Transco with better information so that it could take efficient balancing decisions.

However, evidence presented by Transco at workstream meetings from the first six months of its operation has not demonstrated that the introduction of this charge has provided Transco with more information to ensure more "efficient" gas balancing decisions. Nor have significant improvements regarding the operation of the regime been demonstrated. We do not believe that the regime would have "deteriorated" had this charge not been introduced. The charge on shippers are not reflective of costs on Transco and may be viewed as disproportionate and therefore inefficient.

Since the introduction of this charge, Transco has started taking more small sized actions. Transco is also taking a disproportionate number of small actions which may be viewed as inefficient in contrast to the stated aims of INS to allow Transco to make "efficient" balancing actions. While some have advocated small actions instead of single large ones, Transco is now taking actions on more days and more often on both sides of the market. It is not clear that this has increased efficient operation of the system and it is not clear that many of the actions Transco has taken were required. Transco has stated during workstreams that the INS charge has not changed their operational staff's actions in balancing the system. However, evidence presented by Transco at workstream meetings from the first six months of its operation has not demonstrated that the introduction of this charge has provided Transco with more information to ensure more "efficient" gas balancing decisions. Nor have significant improvements regarding the operation of the regime been demonstrated. There is no evidence that the regime would have "deteriorated" had this charge not been introduced. The charge on shippers are not reflective of costs on Transco and may be viewed as disproportionate and therefore inefficient.

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Shippers are incentivised through cash-out prices which had been designed to be

cost-reflective. This charge has introduced a non-cost reflective charge which increases the amount of money that Transco collects through energy neutrality which is then smeared artificially creating winners and losers. Furthermore, the increase in complexity introduced with this charge can be viewed as increasing barriers to entry.

In its recent document on the gas balancing regime, Ofgem stated that the INS regime should be subject to a review which would consider whether to extend, remove or amend the scheme. This modification has been raised as SGD considers that there is evidence that the INS charge has not served its stated purpose. In light of the evidence provided by Transco, industry participants should consider whether its removal would better facilitate the operation of the gas balancing regime.

Nature of Proposal

Remove the INS charge introduced through M479.

Purpose of Proposal

This modification proposal will further the Relevant Objectives by ensuring that charges associated with being out of balance are reflective of the costs that shippers actually impose. This will contribute to more efficient operation of the gas balancing system. Competition between shippers will be helped by a clearer regime and barrier to entry currently in place due to INS will be removed. If future events results in a requirement to change the regime to ensure continuing day-to-day security of supply, INS can be reintroduced through a further modification or an alternative approach can be explored to address any problems clearly identified.

Consequence of not making this change

Artificially high charges will be made on shippers out-of-balance and/or unable to predict their end-of-day balance position. This creates artificial winners and losers undermining the operation of an efficient gas balancing regime. Removal of the INS charge would ensure that charges to shippers for being out of balance only reflect the costs that they impose on the system.

Area of Network Code Concerned

Section E

Proposer's Representative

Tanya Morrison (Shell Gas Direct Ltd)

Proposer

Tanya Morrison (Shell Gas Direct Ltd)

Signature

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