

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0479

"Incentivised Nomination Scheme"

Version 1.0

Date: 17/07/2001

Proposed Implementation Date: 01/04/2002

Urgency: Non-Urgent

Justification

Transco has observed increased within day linepack variations since the introduction of RGTA. This, at least in part, may be attributed to the fact that Users may come into the day with significant "end of day" nomination imbalances. When gas flows in line with such nominations, input and offtake flows from the NTS may differ significantly, giving rise to significant increases or depletion of linepack. Users may then subsequently change their imbalance position within day to achieve an end of day position much closer to a balance. This "free option", in respect of being able to renominate within day without facing any of the potential costs, creates variations in within day linepack and uncertainty in Transco's balancing action decision making process.

Transco considers that the current uncertainty associated with the information used for the balancing action decision making process may be generating inefficiencies in the operation of the regime. The uncertainty can be characterised as arising from two principle areas; the AT-Link/DFN versus actual flow issue and the significant nomination imbalances regularly seen ahead of the gas day and during the early part of the gas day. The latter issue may be exacerbated by the opportunity for Users to change their imbalance position within day. This proposal is designed to address this issue.

Unless changes are introduced to address the "free option" issue, Transco believes that any further deterioration in the nominated imbalance levels seen early in the day could necessitate significant Transco actions to "balance" the system early in the day. However, should this happen, and then Users "rebalance", Transco might need to take further balancing actions later in the day or subsequent days to negate the effect of its earlier actions. Such actions might generate significant costs as Transco will cross the buy/sell spread.

Transco believes that modest enhancement to the nomination and cost targeting regime could be introduced at low cost to address this issue.

Transco therefore proposes the introduction of a new nomination type to enable Users to provide their best estimate of their expected end of day imbalance position. This will provide Users with the opportunity to advise Transco of the intended imbalance position which they are currently not able to do until they actually change physical (input and offtake) nominations or trade nominations. The new nomination will therefore enable Users to provide better information to support Transco's balancing action decision making process.

Furthermore, Transco believes that, by linking cost targeting to the accuracy of projected nomination imbalance information, the costs arising from poor quality information could be better targeted to those Users that caused them. Such a scheme might, in aggregate, encourage

Users to flow gas at the beginning of the day that more closely reflects end of day expectations as well as providing additional information on individual shipper intent with regard to end of day imbalance. This should reduce the uncertainty of nomination information and physical flows, which should consequently generate greater efficiency in Transco's balancing action decisions, furthering its relevant objective of "efficient and economic operation", as set out in Standard Condition 7 of the PGT Licence.

Nature of Proposal

Transco proposes to introduce a new nomination type that will facilitate better information flows to support Transco's system balancing decision making process. The proposed scheme will also generate commercial incentives on Users to provide more accurate information concerning their expected end of day imbalance, throughout the day.

This requires a new nomination type within day that is distinct from current input, output and trade nominations. At a number of discrete, predefined points during the day, each shipper's nominated end of day imbalance (taking account of both current and new nomination types) will be compared with their end of day allocation imbalance; differences between nominated and allocated imbalance may incur a charge (where such poor information might be assessed as generating costs in the regime). The magnitude of the charge should be a function of individual shipper nominated imbalance versus allocated imbalance variances when compared to other shipper variances; the largest variance will incur the greatest charge, therefore rewarding the most accurate Users.

It is envisaged that the cashflows arising from these charges will feed into the neutrality arrangements to ensure that the scheme achieves the objective of cost targeting.

Purpose of Proposal

The purpose of this Proposal is to facilitate better information to support the balancing decision making process and to provide a commercial incentive on Users to provide more accurate nomination information in respect of their end of day imbalance position. It is intended that the scheme will better target costs generated in the regime.

Provision of more accurate nomination information will assist Transco in taking more efficient balancing actions. This will better facilitate the relevant objective of efficient and economic operation of the system. In addition improved information flow between Users and Transco should ensure the continued safe operation of the system.

Targeting of costs to those that cause them will better facilitate the relevant objective of securing effective competition between relevant Users.

Consequence of not making this change

If the proposed change is not implemented, Users will not be incentivised to provide accurate nomination information about their expected end of day imbalance position, and the current discrepancy between input nominations and demand may persist, with the consequential impact on Transco's balancing action decisions.

Area of Network Code Concerned

Section C: Nominations; Section F: System Clearing, Balancing Charges and Neutrality

Proposer's Representative

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Proposer

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