

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0421
"Temporary Extension of Absolute Tolerance Quantity"
Version 1.0

Date: 15 August 2000

Implementation Date: 1 October 2000

Urgency: Urgent status is necessary given the required implementation date.

Justification:

In modification proposal 251, Enron Direct argued that the Absolute Tolerance Quantity ("ATQ") should be made a permanent feature of the Network Code. Transco responded with Modification Proposal 251a, which requested a temporary extension of ATQ "given the ongoing nature of developments in the Energy Balancing Regime". Ofgem implemented 251a based on a temporary extension of ATQ to 29 February 2000. Following modification 386 this service was extended again, to May 2000 and later by modification 403 to 30 September 2000.

ATQ should remain in force until such time as a tolerance service is made available. In the absence of a tolerance service and ATQ, there is a risk that small shippers face extinction due to a greater exposure to System Marginal Prices ("SMPs").

Smaller shippers tend to have fewer DM sites and tend to source their gas from the NBP rather than the beach or from associated gas field where they have no control over production. They therefore have a relatively small Imbalance Tolerance Quantity (below ATQ) with which to balance in order to avoid the risk of potentially high SMPs. NDM shippers also tend to be more susceptible to proportionately higher within day demand swings, and therefore face a greater balancing risk. The removal of ATQ without the back-to-back provision of tolerance services therefore effectively discriminates against smaller shippers by putting their future in jeopardy and acts as a barrier to the entry of new market participants.

While it is in the interests of the community to reduce balancing costs, ATQ itself represents a very small proportion of shipper throughput. As Ofgem and Transco have conceded in the past, the cost of ATQ to the system as a whole is small.

Consequences of not making this change:

The removal of ATQ in the absence of tolerance services endangers smaller shippers, but has a negligible effect on the system. The possible reduction in tolerances for October will further worsen the position of smaller shippers making the network code unduly discriminatory against smaller shippers.

Area of Network Code concerned:

Transition Document, Part 11, Paragraphs 1.1 and 6

Nature of Proposal:

To retain ATQ, until such time as a tolerance service is made available.

Purpose of Proposal / Achievement of Relevant Objectives:

Standard Condition 7[c]: “Securing the effective competition between relevant shippers and relevant suppliers”

Proposer's Representative

Lisa Waters

Position: Regulatory Analyst
Company: V-is-on gas

Proposer

Lisa Waters (V-is-on gas)

Signature:

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