

URGENT MODIFICATION PROPOSAL

TITLE: Extension of Phase 2 until 1 September 1997

DATE: 13 November 1996

PROPOSED

IMPLEMENTATION DATE: 1 March 1997

URGENCY: This modification is urgent in order to allow sufficient time for discussions of the issues involved.

JUSTIFICATION: The extension of Phase 2 will allow the Absolute Tolerance and the Cumulative Imbalance Tolerance to continue for a further six months. These tolerances provide some measure of security for smaller shippers who do not have flexible within day supplies. These supplies do not appear to be available as those suppliers with such supplies are preferring to reserve the supplies for the flexibility market.

Small shippers do not believe that the extension of these tolerances represents a cross subsidy for smaller shippers. This is because of the nature of the NDM calculation procedure. This procedure involves Transco calculating the total demand for the system and then deducting the DM demand to obtain the NDM demand.

Small shippers generally have a predominance of NDM sites. NDM forecasts are dependent on accurate DM forecasts from larger shippers. As these have generally been inaccurate small shippers are having to provide a subsidy to larger shippers by balancing system demand. The absolute and imbalance tolerances provide a way to reduce this subsidy to the larger shippers.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

Smaller shippers would become exposed to unjustifiable balancing charges by being unable to respond to changes in NDM demand. These charges could be very high in winter if flexibility charges are high. However the unpredictability of NDM demand is only marginally related to the weather and large changes in DM demand can have a knock-on effect on NDM demand even in summer. Hence although the prices in summer could be lower the exposure could be as great.

AREA OF NETWORK CODE CONCERNED:

Transition Document Section 6

NATURE OF PROPOSAL:

To extend Phase 2 by six months to allow the market for within day gas to develop.

PURPOSE OF PROPOSAL:

To allow a further six months for a market in within day gas to be developed.

IDENTITY OF PROPOSER'S REPRESENTATIVE: David Aron

PROPOSER: David Aron

SIGNATURE:

POSITION: Managing Director
COMPANY: Bell Gas

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