

NETWORK CODE MODIFICATION PROPOSAL No 0246

Remove Constraints Costs from Balancing Neutrality

Date: 1 July 1998

Proposed Implementation Date: Immediately

Urgency: The need to improve the energy balancing regime prior to 1 October 1998 dictates that this modification be treated as Urgent.

Justification:

According to Transco's own estimates, over winter 1997/98 the costs of addressing constraints through the flexibility mechanism has been £2 million.

Transco currently relieves constraints by accepting Flexibility System Sell bids at the offending terminal to reduce gas inflow at that point. Experience has shown that constrained bids tend to be below market prices which ultimately lead through to excessive neutrality costs..

The present rules may allow parties affected by the constraint to utilise the information available to them at the specific location and gain an advantage in terms of predicting likely System Buy volumes. This has further cost implications for Neutrality.

In the longer term, Transco deals with constraints through pipeline expansion, compression, service definition in entry capacity. Currently Transco can avoid these costs by taking constrained bids at terminals, which are paid for by the shipping community. This reduces the incentives on Transco to address constraints.

Consequence of not making the change:

Continuation of high smearing costs which removes incentives on Transco to develop the Network and associated rules in the most efficient manner.

Area of Network Code concerned: Sections D1.5, F1.2.1, F4.

Nature of Proposal:

Action to relieve a system constraint should be kept separate from balancing action. Thus if Transco needs to reduce flow at a terminal by (say) 5 mcm, then a corresponding increase at other terminals should be made at the same time. The corresponding system buy should be included under the Transportation constraint and the bids should be excluded from calculation of SAP and SMP. The total cost of this action should be recorded separately from the general balancing neutrality pot, and removed from the balancing neutrality charge.

Action required to balance the system should be taken and recorded separately, and continue to flow through the usual balancing neutrality pot. Even if this results in a buy and subsequent sell at other terminals, the signals for constraint resolution as opposed to system balancing do not become confused and diluted.

Purpose of Proposal / Achievement of Relevant Objectives:

The proposed modification will facilitate achievement of the relevant objectives by:

- Promoting the efficient and economic operation of the pipeline system by removing incentives to cause constraints;
- Encouraging efficient discharge of Transco's obligations under its licence, including efficient balancing of the pipeline system by separating constraints costs for separate cost targeting.
- Removing attributions on costs to shippers who are not responsible for causing the costs, which will better secure effective competition between shippers.

Proposer : Doug Wood

On behalf of : AGAS, Alliance Gas, Dynegy, Enron, Shell Gas Direct

SignedDoug Wood..... Date: 1 July 1998

Referenece Number: 0246

Date Received: 07/07/98