

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0408
"Review of Entry Overrun Charges"
Version 1.0

Date: 21/06/2000

Proposed Implementation Date:

Urgency: Urgent

Justification

Transco believes that it may be appropriate for the present overrun regime to be amended. If a change to the overrun calculation is to be implemented it is most appropriate that the basis of new calculations should be known to users prior to formulating bid strategies for the next series of Monthly System Entry Capacity auctions and therefore urgent procedures are requested.

Nature of Proposal

The proposal contemplates revising the entry capacity overrun charge to take account of whether or not a "constrained day" has been declared at any terminal. For the purpose of the modification proposal, a "constrained day" is defined as one on which all interruptible capacity at that terminal has been interrupted and Transco has subsequently taken a buy-back of firm capacity at the same terminal and on the same day.

The proposal also seeks to remove the day ahead gate closure, such that the revised overrun calculation would take into account capacity prices within the gas day.

Where an entry terminal is non-constrained, it is proposed that the overrun mechanism would be revised such that the energy component (the lesser of $1.5 \times \text{SAP}$ or 0.6054 p/kWh) does not apply in the calculation of the overrun charge. Where an entry terminal is declared "constrained", the overrun charge would be calculated in accordance with the present Network Code rules. Experience to date suggests that this proposal would result in a significant reduction in the overrun charge on non-constrained days.

On "constrained days", the calculation for the proposed overrun charge would remain as set out in Section B 2.10 of Network Code as follows :

The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

- (i) $(1.1 * A)$, where 'A' is the highest offer price pursuant to any daily capacity offer which was accepted by Transco in respect of the Aggregate System Entry Point for the Day;
- (ii) $(8 * B)$, where 'B' is the Applicable Daily Rate determined in accordance with paragraph 2.9.3(ii) for Monthly System Entry Capacity at the Aggregate System Entry Point for the calendar month in which the Day falls;
- (iii) $(1.1 * C)$, where 'C' is the highest bid price pursuant to any daily capacity bid which was accepted by Transco in respect of the Aggregate System Entry Point for the Day; and

- (iv) the lesser of:
 - (a) $(1.5 \times D)$ where 'D' is the System Average Price for that day; or
 - (b) E, where 'E' is 0.6054 p/kWh.

On “non-constrained days”, the proposed overrun charge would be calculated as follows :

The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:

- (i) $(1.1 \times A)$, where 'A' is the highest offer price pursuant to any daily capacity offer which was accepted by Transco in respect of the Aggregate System Entry Point for the Day;
- (ii) $(8 \times B)$, where 'B' is the Applicable Daily Rate determined in accordance with paragraph 2.9.3(ii) for Monthly System Entry Capacity at the Aggregate System Entry Point for the calendar month in which the Day falls;
- (iii) $(1.1 \times C)$, where 'C' is the highest bid price pursuant to any daily capacity bid which was accepted by Transco in respect of the Aggregate System Entry Point for the Day.

Purpose of Proposal

The present entry capacity overrun regime, introduced in October 1999 within RGTA, has provided an incentive to shippers to book entry capacity. However, since its introduction, it has been argued that it discourages the flow of gas on days when the system is physically able to accommodate it.

The modification proposal seeks to revise the overrun charges to a level that will continue to support the “ticket to ride” principle, but will not appear to unduly restrict the amount of gas made available to the system.

The proposed overrun charge mechanism should also discourage the hoarding of surplus capacity, and thus may improve the liquidity in capacity trading and further encourage economic and efficient operation of the system. The proposal also intends to improve cost-reflectivity by taking into account capacity prices resulting from the recently introduced within day capacity release mechanism.

Consequence of not making this change

If the modification proposal is not implemented, shippers may continue to face overrun charges that in general do not reflect the physical capability of the system. In addition, some shippers are of the view that the present level of charges may discourage the secondary trading of entry capacity if shippers choose to hold surplus capacity, and may therefore deter shippers making additional gas available to the system.

Area of Network Code Concerned

Section B

Draft legal text is attached to this Modification Proposal.

Proposer's Representative

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Proposer

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Signature

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