

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0415

"Phased reduction in shipper tolerances"

Version 1.0

Date: 20/07/2000

Proposed Implementation Date: ASAP

Urgency: Urgent procedures requested

Justification

The need to strengthen shipper balancing incentives through a tightening of the cash-out regime was one of the key conclusions of phase one of RGTA. More recently concerns about the increase in within-day profiling of gas deliveries and an alleged degradation in the quality of nomination information provided to Transco has again focused attention on shipper balancing incentives. In addition should Modification Proposal 0411 "Postponement of Tolerance Auctions" be implemented, tolerances will remain at their current levels until 1 April 2001 and another six months will elapse before adequate balancing incentives are introduced. The proposal therefore advocates the phased reduction in shipper ITQ tolerances to maintain the momentum of the original RGTA reforms.

In our view the current relatively liberal tolerances provide significant scope for shippers to profile deliveries (either intentionally or through poor within-day management of the supply-demand relationship), without facing a significant risk of SMP cash prices at the end of the day. Although the proposal clearly focuses on an end-of-day balancing performance, we believe it can indirectly help prevent these within-day profiling problems. By reducing Shipper tolerance, parties profiling within day will find it increasingly difficult to move to an in balance end of day position. Indeed it seems the only approach that can be implemented in the short-term to offering a realistic prospect of addressing this issue.

Nature of Proposal

This modification proposes that shipper tolerances, which are used to calculate shippers ITQ, be reduced by 50% from their current levels immediately, and to zero on 1 April 2001.

Consequence of not making this change

There will not be any increased incentives for improved shipper balancing performance (both end-of-day and within-day) prior to 1 April 2000 should modification proposal Modification Proposal 0411 "Postponement of Tolerance Auctions" be implemented in full.

Area of Network Code Concerned

Section F

Proposer's Representative

Peter Bolitho
Gas Trading Arrangements Manager, PowerGen UK plc

Proposer

Peter Bolitho
PowerGen UK plc, supported by Scottish Power.

Signature

.....