

TRANSCO WORKSTREAM REPORT

"Amendment of Imbalance Calculations to enable Elective Aggregation of Demand across one or more Shipper ID's"

Version 2.0

Modification Proposal 0553

Executive Summary

Following the Modification Panel's recommendation that Modification Proposal 0553 be referred to the Energy Workstream for further development, a Sub-Group was set up to consider the Proposal more fully and report back to the Panel with its recommendations. The Sub Group held two meetings (9 July and 15 August) and were attended by up to six shippers and Ofgem.

During the meetings the Group examined :

- the reasons behind the Proposal,
- the different options for delivering the intent of the Proposal,
- the impact as a result of implementation of the Proposal, and
- some of the detailed elements of the Proposal to facilitate a decision to proceed to consultation.

The Group acknowledged that because of the significant systems implementation issues that the Proposal would introduce, a systemised solution would be unlikely prior to Autumn 2003. Following discussion on the pros and cons of the proposal it was agreed that it had been sufficiently considered to allow it to proceed for consultation.

Background

The Group was informed of the latest position of a number of other modification proposals relating to the same area, and there was some discussion on the interaction between these proposals and Modification Proposal 0553.

- Modification Proposal 0511 – Removal of NDM Forecast Deviation from Imbalance Calculations. (Approved with implementation date of 1 Oct. 2002). Although Modification Proposal 0553 had been raised in response to Ofgem's decision to approve Modification Proposal 0511, some shippers suggested that some of the perceived benefits of Modification Proposal 0511 would not be realised in light of the fact that shippers would be unable to overwrite Transco's AT Link NDM offtake nominations if they decide not to track Transco's demand forecasts. However, it was argued that such a drawback would not negate the purpose of Modification Proposal 0553.
- Modification Proposal 0563 – Delay to removal of NDM Forecast Deviation Tolerance. It was noted that the Final Modification Report was due to be submitted for an Ofgem decision. The Group agreed that any Ofgem decision to approve Modification Proposal 0563 would lessen the priority of Modification Proposal 0553. However, as the

underlying belief among shippers remained that forecasting demand and managing imbalance positions improve where there is aggregation of shipper accounts, it was felt that there would still be merit in pursuing the suggested approach set out in the proposed Modification, irrespective of the outcome of Modification 0563 (if only to ensure that Modification 0553 could be implemented at the same time as Modification 0563 would cease to have effect).

- **Modification Proposal 0567 – Review of NDM forecasting methodology.** It was noted that in agreeing the Terms of Reference for Review Group 0567, the decision had been taken to exclude Modification Proposal 0553. Therefore although the two groups would be addressing similar areas of the commercial regime, it was recognised that they would follow separate process routes, with regular updates on their respective positions.

Detail of the Modification Proposal

In discussing the detail of the Modification Proposal, the Group worked through the suggested approach as described by the Proposal and considered how this would operate within the existing daily nominations and allocations processes, including at what stage the daily processes would need to be amended. Alternative options to the allocation of deemed energy amounts across shippers ID's were discussed and these are described later in the report.

The Group reached a consensus that the approach described in the Modification Proposal would remain unchanged, though certain aspects of the content were clarified further in the following areas:

1. **NDM/DM demand** . Although the Modification Proposal describes both NDM and DM demand Transco advised that as the daily processes in AT Link differed between DM and NDM allocations, consideration needed to be given to the relative importance of the two areas and whether they could be treated separately. The Group expressed the view that there would be more benefit in aggregating NDM demand than DM demand and that consideration could be given to addressing NDM demand only if this facilitated an earlier implementation. However, the Group agreed that the approach described in the proposal i.e. to reallocate 100% of the Shipper's total demand, should remain unchanged.
2. **LDZ/EUC Categories.** Transco advised that as the meter types on AT Link were described on an LDZ/EUC basis, any shipper request to specify an allocation of demand to a lower level of granularity would introduce a further degree of complexity. The Group agreed that any implementation solution would not need to include such a feature.
3. **VLDMCs.** Transco questioned the Group on whether it was envisaged that the Proposal would extend to VLDMC's as the daily information flows within Transco's systems followed a different path and would require different implementation solutions. It was agreed that the functionality for shippers to input their own daily nominations at VLDMC level would in practice be of less benefit, but that any implementation solution should

still offer this feature, consistent with the approach described in the Proposal to reallocate 100% of demand.

4. **Invoicing.** It was confirmed that the Modification Proposal, if implemented, would not affect Transco's requirements to invoice shippers on an individual basis for the purposes of energy balancing and transportation.
5. **Neutrality Mechanism.** It was agreed that the Proposal would not result in changes to the neutrality rules. This is because the Shipper (s) whose daily energy is reallocated to the lead shipper would have zero offtake and input allocations thus giving a zero neutrality charge / rebate. The Shipper to whom the demand was reallocated would have a higher allocated offtake and (logically) a higher input allocation, this in turn would increase their Balancing Neutrality charge / rebate i.e the existing rules would continue to be used and give the appropriate invoice values for each shipper in the agreement.

Assessment of implementation issues and potential impact

1. Impact on Transco's computer systems.

As part of the Group's discussions on implementation issues, Transco advised the Group that as the proposal sought to change the imbalance calculation rules within AT Link it would affect the allocations and balancing daily processes and, depending on the systems solution, could possibly affect the nominations and demand attribution processes. Therefore this would rule out a systemised solution for implementation by 1 October 2002, the proposed date of the Modification. Due to the number of processes affected and the nature of the changes envisaged alternative "off-line" solutions were not considered to be feasible and would significantly increase the level of contractual risk. Although a full systems impact assessment had not been undertaken, an initial high-level assessment had concluded that implementation of such changes to ATLink would represent a risk to the overall stability of the system. It had also stated that development of the changes on ATLink would divert resources from the introduction of the replacement to ATLink (known as Project Gemini), planned for 2003.

Therefore, in Transco's view, a change to the daily allocation processes as described in the Modification Proposal could only be implemented as part of Release 3 (Energy Balancing) of Project Gemini, the latest planned date being Autumn 2003.

In addition to the impact on ATLink/Project Gemini, Transco highlighted the changes that would be required to the following computer systems, mainly in the Billing function :

- a. *Pias Indebtedness Monitoring System (PIMS).* As part of the introduction of INS (Incentivised Nomination Scheme), PIMS is due to be implemented on 1 October 2002. Changes may be needed to PIMS to take account of changes in the ATLink (/Gemini) data streams that would arise from implementation of Modification Proposal 0553.
- b. *Offline systems.* A number of offline systems within Billing would require changes, such as the validation of cash out charges, and the billing of Unique Sites. For example,

commodity invoices for Unique Sites rely on allocation data off ATLink. If the allocations are deemed zero, then systems changes would be needed to allow accurate commodity invoices to be produced. Also, the setting of allocations to zero for certain DM sites on AT Link may impact on the NDM attribution process for those LDZ's , necessitating further systems changes.

- c. *Credit Risk Systems.* Present systems are designed to measure individual accounts, and therefore would require changes to monitor debt positions that would be based on, say, aggregate input positions together with any further complexity the associated changes to the Credit Rules could introduce.

2. Contractual relationship and resolution of legal disputes

Transco has expressed concern to the Group that the proposed methodology set out in the Modification Proposal could introduce uncertainty in the contractual relationship as described by Network Code. In Transco's view the approach suggested in the Modification Proposal would require redrafting in order to clarify the new obligations of Shippers to or from whom demand was reallocated for the purposes of imbalance cash out determination.

There was a range of views expressed by Sub-Group members, with some acknowledging Transco's view, whereas others arguing that the Proposal could be introduced in such a way that the change in responsibilities arising from the revised business rules could be clearly described. A suggestion was also put forward that Transco would be able to identify which shipper was undertaking duties on behalf of another, and that the registration scheme would formalise the new arrangements.

There was discussion on whether the Proposal could place shippers or Transco in breach of their licence conditions or other areas of Network Code. For example, the inputting of zero nominations on ATLink meters, where gas is expected to be delivered, could be considered a breach of Condition 2 (3) of the Gas Shippers' Licence.

In addition, Transco highlighted that implementation of the Proposal could necessitate changes to the Network Code rules on information disclosure (Section V5) to allow Transco and Users to disclose such information to other parties in the aggregation agreement, where required by Modification 0553.

3. Credit Risk

There was general agreement within the Group that the rules on Energy Balancing Credit would need to be amended to reflect the aggregate positions that shippers could take thus affecting the monitoring of their true credit positions. Again, there was a range of views expressed regarding the degree of changes to the Credit Rules that would be required. Following the discussion at the Sub-Group meetings, Transco agreed to assess these areas more fully, and also suggested it would be useful to seek the views of the Energy Balancing Credit Committee (EBCC). Transco believes that implementation of the Proposal would require changes in the following areas:

- i. **Monitoring of Debt Positions.** In Transco's view the switching of allocations between shippers could create further complexity in monitoring true credit positions on an individual basis. Monitoring on an aggregate basis could create difficulties in identifying which of the shippers within a Group structure had incurred an excess. This could lead to issues in escalating the excess through the cash call process. A number of shippers expressed the view that Transco would only need to ensure adequate credit cover arrangements with the lead shipper, who in turn would need to handle credit issues with the other shippers in their group structure, consistent with the arrangements in NETA.
- ii. **Credit Limits.** The appropriateness of the present rules on setting of credit limits was discussed. Transco commented that the existing process (i.e. basing credit limits on average throughputs) would continue to be applied, but at an aggregated position rather than an individual position
- iii. **Cash Call Process.** The likelihood of added complexity in the cash call process was briefly discussed. In Transco's view, the escalation process in the event that a Shipper's energy balance indebtedness exceeds the level of security provided would become further complicated as it relies on, among other data, terminal inputs. Therefore the managing of terminal inputs (nominations and allocations) on an aggregate basis would need to be taken into account, to ensure true debt positions were understood

4. INS (Incentivised Nomination Scheme)

The interaction between the Modification Proposal and INS, due to be introduced from 1 October 2002, was also discussed. As Modification Proposal 0553 envisages the lead shipper inputting to ATLink the entry nominations for all the other shippers in the agreement as an aggregated figure, then this raises issues about how INS would operate on an individual shipper basis. Some Group members suggested that this would inevitably require the nominated shipper to act as lead shipper for the purposes of INS in addition to Modification 0553. It was envisaged, however, that this would not require changes to the systems supporting INS and the INS business rules.

Consideration of Benefits of Modification Proposal

It is difficult to assess accurately the expected financial benefit of the Proposal as it is based on the premise that the difference between the forecast and actual demand at an aggregate level would be less than the sum of the differences between the forecast and actual demand of each portfolio separately. The actual difference would also vary from shipper to shipper.

Consideration of Alternative Approaches

1. Transfer ownership of supply points between shippers

Justification for the Modification Proposal is that the suggested approach would avoid the need for a transfer of a large number of supply points into a single portfolio, and the costs associated with these transactions

Having given further consideration to the issue of Bulk Transfer Mechanisms, Transco believes that the debate could be re-opened and that possible solutions to the issues that prevented the approval of Modification Proposal 0468/468a should be further explored

2. Aggregation Position of Imbalance Charges

An option was put forward that contemplated the aggregation of individual imbalances of each shipper account to a single imbalance position while leaving the allocation process unchanged. The nominated lead shipper would effectively net off any credit and debit values of the individual shippers and have responsibility for the settlement of a single energy balancing invoice with Transco. However, Network Code requires single shippers to be responsible for the settlement of their specific invoices. Also, the Group argued that on the assumption that an aggregation of imbalance positions would not necessarily lead to better DM/NDM forecasting or a better imbalance position.

3. After the day trading between the different shipper accounts.

This option could be adopted to “trade out” any individual imbalance positions. However, this would not be possible at entry points because of the need to hold sufficient entry capacity, which can be expensive on a short term basis. Trading at the NBP would not remove imbalances prior to close-out of exit allocations on D+5 as NBP trading is closed out at D+1.

Conclusions and Recommendations

Following the discussions held at the two Sub-group meetings, and the additional assessment undertaken by Transco, the Group concluded that the Modification Proposal had been sufficiently considered for it to proceed for consultation. The Group acknowledged that the suggested methodology described in the Proposal would require implementation via a systemised solution. Due to the extent of the daily allocation processes involved and the planned replacement of ATLink, implementation of the Proposal would not be possible until Autumn 2003. The Group also recognised the interactions of the Proposal with Modification Proposals 0511 and 0563 (Removal of NDM Forecast Deviation from Imbalance Calculations) and Modification Proposal 0567 (Review of NDM forecasting methodology). It was argued that any delay to the removal of NDM forecast deviation would give a reduced priority to the Modification Proposal but the argument that forecasting accuracy improves at an aggregate level would remain valid. The Group therefore expressed the view that there would still be merit in progressing the proposed Modification irrespective of the outcome of Modification 0563. The Group concluded that development of the Proposal was complete and that it should proceed to consultation.