

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0632

"Revise INS Charge to Zero"

Version 1.0

Date: 16/05/2003

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

The incentivised nomination scheme (INS) was introduced in October 2002 through modification 0479 (M479). The justification for introducing the charge was that it would provide Transco with better information so that it could take efficient balancing decisions.

However, evidence presented by Transco at workstream meetings from the first six months of its operation has not demonstrated that the introduction of this charge has provided Transco with more information to ensure more "efficient" gas balancing decisions. Nor have significant improvements regarding the operation of the regime been demonstrated. It is not clear that the regime would have "deteriorated" had this charge not been introduced. The charge on shippers are not reflective of costs on Transco and may be viewed as disproportionate and therefore inefficient.

Since the introduction of this charge, Transco has started taking more small sized actions. Transco is also taking a disproportionate number of small actions which may be viewed as inefficient in contrast to the stated aims of INS to allow Transco to make "efficient" balancing actions. While some have advocated small actions instead of single large ones, Transco is now taking actions on more days and more often on both sides of the market. It is not clear that this has increased efficient operation of the system and it is not clear that many of the actions Transco has taken were required. There remains to be a robust definition to "efficiency" in terms of Transco's actions agreed by Ofgem and clearly understood by the industry.

Some parties continue to express concern about the operation of the balancing regime. To the extent that INS may contribute, there may be value in keeping the charge but setting it to "zero" while further incremental reform to the regime is considered. This would be similar to the approach in electricity where the information imbalance charge is set to zero on the basis that licensed parties have other obligations to ensure that this information is properly provided to the network operator.

In its recent document on the gas balancing regime, Ofgem stated that the INS regime should be subject to a review which would consider whether to extend, remove or amend the scheme. This modification has been raised as SGD considers that there is evidence that the INS charge has not served its stated purpose. This modification proposal allows market participants to consider the performance of the INS charge in light of the analysis provided by Transco and to consider whether there should be an opportunity to consider future operation of the INS regime without inefficiency of the charging structure.

Nature of Proposal

Amend the INS charge as introduced through M479 so that the charge is zero.

Purpose of Proposal

This modification proposal will further the Relevant Objectives by ensuring that charges associated with being out of balance are proportionate. This will contribute to more efficient operation of the gas balancing system. Competition between shippers will be helped by a clearer regime and barrier to entry currently in place due to INS will be removed. If future events demonstrate that INS would make a positive contribution to the operation of the system, and if it is felt necessary to re-introduce a financial incentive on shippers, a further proposal could be raised to amend the charge at that time.

Consequence of not making this change

Artificially high charges will be made on shippers out-of-balance and/or unable to predict their end-of-day balance position. This creates artificial winners and losers undermining the operation of an efficient gas balancing regime. This modification will ensure that there is a way for shippers to tell Transco of their intended end-of-day balance position, in line with a stated objective of the introduction of this charge.

Area of Network Code Concerned

Section E

Proposer's Representative

Tanya Morrison (Shell Gas Direct Ltd)

Proposer

Tanya Morrison (Shell Gas Direct Ltd)

Signature

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