TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0684

"Revised Ratchet Regime for Breaches of Provisional Maximum Capacity"
Version 1.0

Date: 05/03/2004

Proposed Implementation Date: 31/07/2004

Urgency: Non-Urgent

Justification

Modification Proposal 0652 was put in place to address temporarily the concern that the ratchet mechanism as drafted could be open to challenge as penal on sites that consume more than their provisional Maximum Capacity. Modification proposal 0652 is transitional in nature and only covers the winter 2003/2004. This current modification proposal provides a permanent solution to the issue.

Nature of Proposal

This proposal addresses two areas: the incentivisation of shippers to book an appropriate SOQ for supply points that breach their Provisional Maximum Capacity (PMC) and to replace this incentivisation where a shipper is seeking to book an appropriate SOQ, but is constrained by other industry processes over which he has no control – the assessment of the network to support the additional capacity requested, the development of a site works quotation where appropriate and the lead time and construction time associated with the site works quotation.

Ratchet Incentivisation Regime

Any supply point that consumes more than its Provisional Maximum Capacity (PMC) on any day during a calendar month during the period 1st September to 30th April will be subject to this ratchet regime.

In any month within the relevant period where gas is consumed in excess of the PMC on any day or days at a supply point the shipper shall be liable for a ratchet charge. Where the SOQ of the supply point is below the PMC the SOQ of the supply point shall be set to the PMC for the gas day following the breach. The charge shall be the product of the Ratchet Quantity, the Ratchet Charge and a multiplier. The Ratchet Quantity shall be determined as the difference between the maximum daily usage of the supply point in that month and the SOQ of the supply point on the 1st of that month. The Ratchet Charge shall be the difference in rate between the annual capacity charge rate for the SOQ at the maximum daily usage and the annual capacity charge rate for the SOQ on the 1st of the month in question. The multiplier is [1] (one).

Requesting SOQ Increase

A request for an increase in SOQ above the PMC of a supply point will require an assessment to be carried out to determine that the network is capable of supporting

this load under the applicable design criteria. This currently takes 12 working days. During this period the shipper can not manage their exposure to additional breaches of the PMC. The application of an incentive where the person being incentivised can not act on that incentivisation is not appropriate or reasonable. However, as the supply point is making use of the additional capacity the shipper should be charged for the use of the system. A Premium Daily Charge relating to the normal daily capacity charge for the SOQ requested by the shipper uplifted by [10%], less the daily charge for the SOQ of the supply point should be levied during this period. This charge should be waived for any day in this period which coincides with a day covered by the Ratchet Incentivisation Regime.

Where the result of the assessment of network capacity is that the requested SOQ is available the PMC and SOQ for the supply point should be set to the requested SOQ for the gas day following the result of the analysis – 13 Days after the request for an increase in SOQ is submitted. Where this occurs within a month covered by a payment under the Ratchet Incentivisation Regime, daily capacity charges at the new rate based on the revised SOQ will commence from the 1st of the month following.

Where the result of the assessment of the network capacity is that site works will be needed to provide the additional capacity the shipper needs a short period in which to assess the long-term requirements of the site in which the supply point is contained. The service level for production of a quotation for site works of this nature is 12 days. Such quotations are valid for acceptance for 90 days. Therefore, a reasonable tightly constrained period for obtaining authorisation to proceed with the appropriate site works would be 36 Days (comprised of 2 Days to determine requirements after notification that site works are required, 12 Days for the production of the quotation, 22 Days to obtain authorisation to proceed from the end consumer {equivalent to 30 calendar days}). During this period the shipper is working to manage their exposure to the Ratchet Incentivisation Regime charges and as such should not be exposed to these charges. Rather, they should be exposed to the Premium Daily Charge.

In summary, where a request for an SOQ increase is made and approved the shipper should be charged for 12 Days at the Premium Daily Charge, allowing for days already covered by a Ratchet Incentive Regime charge; and where a request for an SOQ increase is made and requires site works, the Premium Daily Charge should be applied for 48 Days, allowing for days already covered by a Ratchet Incentive Regime charge.

Acceptance of Site Works Quotation

Once a shipper accepts a site works quotation to carry out site works to make the necessary capacity available under the applicable design criteria, they have discharged their responsibilities to the best of their ability and from this point should no longer be subject to charges under the Ratchet Incentivisation Regime, but should be subject to the Premium Daily Charge for any remaining relevant period until completion of the site works.

Purpose of Proposal

The purpose of this proposal is to provide a long-term solution to the concern that the previous ratchet regime is open to challenge as being penal when applied to supply points that exceed their Provisional Maximum Capacity. It seeks to provide an incentive regime to encourage shippers to revise capacity bookings for supply points that exceed their Provisional Maximum Capacity whilst recognising that as a shipper is undergoing the processes for increasing the Provisional Maximum Capacity and SOQ of a supply point further incentivisation is inappropriate.

Consequence of not making this change

If this change is not made Modification Proposal 0652 will expire and the regime for ratchets for supply points that exceed their Provisional Maximum Capacity will revert to that which previously raised concern regarding possible challenge to the penal nature of the regime.

Area of Network Code Concerned

Section B 4.7.6

Proposer's Representative

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Proposer

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Signature

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