TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0684a

"Revised Ratchet Regime for Breaches of Provisional Maximum Capacity - Transco alternative"
Version 2.0

Date: 02/04/2004

Proposed Implementation Date: 01/10/2004

Urgency: Non-Urgent

Justification

This proposal has been raised as an alternative to Modification Proposal 0684, raised by BP Gas Marketing Ltd ("BP"), and details Transco's proposed solution to the issue of repeat ratchet charges for Firm DM Supply Points offtaking in excess of their Provisional Maximum Supply Point Offtake Quantity ("PMSOQ").

Transco's view is aligned with BP's in so far that the current drafting of the Network Code has the potential to generate significant charges where the circumstances described above occur. However, Transco would like to proffer an alternative, procedurally simpler solution to this issue.

Transco's proposal is to levy a monthly charge equal to the highest daily ratchet charge in a month(1) where there is a daily offtake of gas above the PMSOQ. This provides a simple charging mechanism that generates realistic charges that are higher than would be applied for a simple SOQ-increasing ratchet but fall short of the aggregate charge that would be generated by the application of the repeat ratchet rule for breaches of PMSOQ. Transco believes that the monthly charge, while more severe than an SOQ-increasing ratchet charge, is appropriate bearing in mind that the Supply Point is operating in excess of the pre-agreed maximum daily offtake. In such circumstances, Transco may be required to deploy additional resources to ensure the security of the gas network is not being prejudiced. For the avoidance of doubt, in the event that the Supply Point offtake was having a detrimental effect on the network, Transco would Isolate the Supply Point using its rights under the Gas Act or use Network Code rights to interrupt Supply Points in the localised area.

Transco's principle concern with BP's proposal, and its associated complexity, is that it endorses the premiss that breaches of PMSOQ can only be managed retrospectively. Transco is of the opinion that, if managed proactively, the incidence of repeat ratchet charges could be significantly reduced or avoided altogether.

To illustrate this point, many of the Supply Points identified as at-risk of incurring repeat ratchet charges during this current Winter, discussion of which prompted the development of Modification Proposal 0652, have not had SHQ or SOQ increase requests submitted subsequent to its implementation. Transco believes that where site-works are required, the intervening months would have presented an ideal window of opportunity to initiate SHQ or SOQ increases at these Supply Points. However, the anticipated activity has not been evident to date.

(1) applied, as now, only during for months October to May inclusive.

Nature of Proposal

Where in a month(1) a Supply point offtakes more in a day than the PMSOQ, the ratchet charge will be waived except for day of the month on which the maximum breach occurred.

Purpose of Proposal

The purpose of the proposal is to provide a solution to the issue of repeated breach of a Supply Point PMSOQ and the associated financial consequences. This proposal provides a pragmatic solution to the issue of repeat ratchet charges which maintains an incentive based charging structure while retaining the ratchet mechanism with moderated charges, thereby maintaining an incentive for Users to resolve individual Supply Point issues .

Transco is of the opinion that implementation of this proposal would serve to maintain an appropriate incentive structure to protect adjacent offtakes while ensuring a competitive and commercially sound environment for shippers to operate.

Consequence of not making this change

For Supply Points offtaking above PMSOQ, daily ratchet charges would be levied which, in aggregate over the winter period, could amount to significant charges. Given that ratchet charges are transportation charges, (that is, charges levied for use-of-system), it could be considered that their repeated daily application for PMSOQ breaches is excessive.

Area of Network Code Concerned

B4.7

Proposer's Representative

Alan G Raper (Transco)

Proposer

Sharon D McLaughlin (Transco)

Signature

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