TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0692

"Provision of Shrinkage Information : Gas Procurement & Disposals"
Version 3.0

Date: 15/04/2004

Proposed Implementation Date: 01/10/2004

Urgency: Non-Urgent

Justification

Within the definition of its Gas Transportation Licence, Transco is financially incentivised under the NTS SO Incentive Scheme to efficiently manage gas procurement and disposals in its role as the Shrinkage Provider. The NTS SO Incentive Scheme is structured such that Transco and Users share any cost (or revenue) associated with the management of the Shrinkage Provider account, in accordance with the factors defined in the Licence.

Following the implementation of Modification Proposal 0579 and more recently, Modification Proposal 0599 (1st April 2004), the Shrinkage Provider has increased discretion in the manner in which it manages this account. Specifically, Modification Proposal 0579 has enabled the Shrinkage Provider to dispose of gas at the NBP (National Balancing Point) up to a level equal to the extent of gas purchases at the NBP whilst Modification Proposal 0599 obliges the Shrinkage Provider to procure all of its gas at the NBP.

In its decision letter in relation to Modification Proposal 0579, Ofgem accepted the views expressed by some repondents that increased information in respect to the operation and activities of the Shrinkage Provider would enhance transparency and, afford Users with the opportunity to monitor Transco's performance in the context of its Licence Conditions and NTS SO incentives. Ofgem's 0579 decision letter also suggested that it was open to Users to raise an appropriate Network Code Modification Proposal to improve the transparency of the Shrinkage Provider activities.

Subsequently, Modification Proposal 0618 "Publication of Shrinkage Provider gas procurement and disposal information" was raised to ensure greater provision of data relevant to the management of the Shrinkage Provider account. The Proposer of 0618 suggested several categories of information (ex ante and ex post) that it believed would "better facilitate the relevant objectives of the efficient and economic operation of the pipeline system". Transco did not support the implementation of 0618, primarily on the basis that the provision of ex ante (day ahead) information could reveal the commercial trading position of the Shrinkage Provider and thus potentially place it in the position of a distressed buyer, or seller, in the market.

Whilst Ofgem chose to reject 0618, it indicated that it felt that further consideration should be given to the publication of further up todate information (ex-post) and also noted that Transco had expressed its intention to raise an alternative proposal in line with the intent of 0618.

Transco does recognise the industry desire for greater information release and is supportive where the benefits of inceased information provision can be clearly quantified and demonstrated, for example, facilitating further competition in the market. Transco also acknowledges that the provision of this particular dataset will assist those Users who wish to monitor Transco's performance in the operation of the Shrinkage Provider against the NTS SO incentives.

Nature of Proposal

In respect of each Gas Day, the Shrinkage Provider should publish gas procurement and disposal information associated to the Transco NTS SO incentives.

The net quantity of gas purchased and sold* (kWh).
The quantity of gas purchased (kWh).
The quantity of gas sold* (kWh).
The total number of buy and sell* trades executed.
The weighted average price of all buys (p/kWh).
The weighted average price of all sells* (p/kWh).
The minimum price at which the gas was bought (kWh).
The maximum price at which the gas was bought (kWh).
The minimum price at which the gas was sold* (kWh).
The maximum price at which the gas was sold* (kWh).

* where occurred

This information should be provided to Users in a readily accessible form, and in a timely manner. The frequency of publication should be aligned to the Shrinkage Provider's internal operational and administrative activities that process and collate this type of information. The information would be published daily, each business day following D+5.

Purpose of Proposal

This Modification Proposal may, if implemented, better facilitate the relevant objectives of the efficient and economic operation of the pipeline system for the following reasons;

Increase competition between Users for the provision of gas procurement and disposal arrangements to the Shrinkage Provider;
May improve liquidity in the market for shrinkage gas management services;
Enable Users to monitor Transco’s performance in relation to its Licence obligations and NTS SO incentives; and
Improve transparency in relation to the Shrinkage Provider's NTS gas procurement and disposal activities in the gas market.

Consequence of not making this change

Failure to publish this information may prevent Users from being able to assess the efficiency of Transco's performance with respect to its NTS SO incentives in a timely and meaningful manner. Additionally, without publication of this information, Transco will be unable to address the Users' concerns in relation to the transparency of its incentivised activities.

Area of Network Code Concerned

Draft Legal TextSECTION N*Insert a new paragraph 4.6 as follows:*"4.6 Information Provision4.6.1 For the purposes of this paragraph 4.6:(a) “relevant shrinkage disposals” shall mean all gas disposed of by the Shrinkage Provider, which gas had previously been purchased by the Shrinkage Provider in respect of NTS shrinkage for the relevant Gas Flow Day;(b) “relevant shrinkage purchases” shall mean all gas purchased by the Shrinkage Provider in respect of NTS shrinkage for the relevant Gas Flow Day;(c)prices shall be quoted in pence per kWh and, to the extent that the Shrinkage Provider is reasonably able to do so, shall take into account any discounts or premiums applied or charged in respect of relevant shrinkage purchases or relevant shrinkage disposals, provided the amount of such discounts and premiums were known to the Shrinkage Provider at the time of the calculation of the relevant prices and were reasonably able to be applied to one or more relevant shrinkage purchases or relevant shrinkage disposals;(d) where the Shrinkage Provider has entered into a transaction for an amount on each Gas Flow Day for a specific period it shall, for the purpose of calculating the number of transactions entered into, be deemed to be a separate transaction in respect of each and every Gas Flow Day to which it relates; and(e) whilst all information published by the Shrinkage Provider will so far as reasonably practicable be reflective of the information in its possession at a time as close as reasonably practicable to the time of publication, it will not be reflective of information which comes into its possession subsequently (or of any subsequent relevant shrinkage purchases or relevant shrinkage disposals in respect of the relevant Gas Flow Day), will not bind Transco or the Shrinkage Provider and will be without prejudice to the provisions in this Section N and elsewhere in the Code whether to later adjustment, assessment, reconciliation or otherwise.4.6.2 The Shrinkage Provider shall, no later than the end of the fifth Day following the relevant Gas Flow Day (or, if such Day is not a Business Day, the end of the first Business Day thereafter), publish the following information (where such information is available) in relation to relevant shrinkage purchases and relevant shrinkage disposals made in respect of that Gas Flow Day:(a) the net quantity of gas purchased (being the quantity derived as the aggregate quantity of gas purchased pursuant to relevant shrinkage purchases less the aggregate quantity of gas disposed of pursuant to relevant shrinkage disposals);(b) the aggregate quantity of gas purchased pursuant to relevant shrinkage purchases;(c) the aggregate quantity of gas disposed of pursuant to relevant shrinkage disposals;(d) the aggregate number of transactions entered into in respect of relevant shrinkage purchases;(e) the aggregate number of transactions entered into in respect of relevant shrinkage disposals;(f) the weighted average price of relevant shrinkage purchases;(g) the weighted average price of relevant shrinkage disposals;(h) the minimum price paid under a transaction for a relevant shrinkage purchase;(i) the maximum price paid under a transaction for a relevant shrinkage purchase;(j) the minimum price received under a transaction for a relevant shrinkage disposal; and(k) the maximum price received under a transaction for a relevant shrinkage disposal."

Proposer's Representative

Steve Pownall (Transco)

Proposer

Richard Court (Transco)

Signature

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