Transco NTS Balancing Role

Demand Side Working Group

9th September 2005

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Content

- National Grid actions from the DSWG 2nd September 2005 covering its Gas Balancing Role
- Clarify;
  - 1. Interpretation of NG Residual Balancing Role
  - 2. Impact of taking balancing actions
  - 3. Minimum actions, aggregated actions and the SMPS
  - 4. Multiple Day Offers

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1. Interpretation of NG Residual Balancing Role

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Residual Balancing Role

- Transco NTS's residual balancing role encompasses;
  - Maintaining, both during and at the end of the gas flow day, the balance between the quantities of gas respectively delivered to and offtaken from The System.

From the Definition of Operational Balancing : UNC TPD D 1.1.1

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Transco NTS's interpretation of it's Residual Balancing Role

- Transco NTS's believes that it's residual balancing role encompasses;
  - Maintaining, both during and at the end of the gas flow day, the balance between the quantities of gas respectively delivered to and offtaken from The System,
  - resulting from within day supply & demand forecast errors, to the extent that this balance is not, or is not expected to be maintained by Users (e.g. Shippers) own actions.

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Justification (1)

- The introduction of the NBP and the OCM, have been acknowledged as key components of the success of the gas-balancing regime.
- Shippers agreed, as part of the 2002 Energy Balancing Review, that any evolution of the regime should stimulate, as far as is practical, further development of competitive gas markets.
- It is NGT's view that contracting for energy services outside of the OCM would have an unnecessary negative impact on the liquidity of the market.

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Justification (2)

- Relevant objective A11 1 (d) of Transco's GT licence obliges Transco to develop services that secure effective competition between relevant shippers and between relevant suppliers.
- Transco NTS considers that minimising its residual balancing role is consistent with this objective

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2. Impact of taking balancing actions

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Operational Balancing

- An operational balancing requirement occurs when the difference between forecast supplies and demands is in excess of the operational tolerance
  - Operational tolerance ~ acceptable Linepack variation
- If an operational balancing requirement occurs Transco NTS will accept, if available, all necessary economic and efficient offers on the OCM.

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Economic & Efficient

- In assessing the economics and efficiencies of a particular OCM offer;
  - Transco NTS will consider whether that action will have a discernible positive impact on the supply/demand position in the time available as a result of its volume and/or price
  - Volume Impact:
    - Resulting in the counter-party making a physical flow change.
  - Price Impact:
    - Incentivising other Users to take actions that result in a physical flow change.

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Incentive Properties

- Cash-out prices provide incentives for Users to undertake trades in order to balance their positions within the balancing period, but also incentives to ensure that gas is physically delivered against trades with the balancing operator (NTS Transco).

- This is distinct from the electricity arrangements where Gate Closure prevents market participants from trading with each other within the balancing period, (as the sole counterparty is the system operator) and there are alternative mechanisms and obligations in place to ensure physical delivery.

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3. Minimum actions, aggregated actions and the SMPS

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Demand Response OCM Process

- A User can offer demand response/turn-down as a ‘disposing trade’ on the OCM
  - Requires a User to have access to commercial interruption rights
  - Can be accepted from 12:00 on D-1.
- Transco will use the OCM as its primary Operational Balancing tool and hence may accept such offers

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DM & Interruptible Thresholds

- Interruptible AQ>
  - 5,860,000 kWh/annum
  - 200,000 therms/annum
- Daily Equivalent~
  - 16,000 kWh/day
  - 550 therms/day
- Daily Metered AQ>
  - 2,196,000 kWh/annum
  - 75,000 therms/annum
- Daily Equivalent ~
  - 6,000 kWh/day
  - 200 therms/day

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Market Offer Limits

- A Physical/Locational action can be offered at
  - any DM Supply Point >2Mtherms/annum
  - Any DM Supply Point with an individual nomination
- Minimum Market Offer
  - 100,000kWh (4,000 therms)
- Smaller sites could be aggregated and demand reduction offered as a title trade

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SMPS

- SMPS ~ System Management Principles Statement
  - The purpose of the Statement is to describe the basis on which Transco NTS will employ system management services.

- The SMPS is kept under continuous assessment and Transco NTS will bring forward any changes that it identifies are necessary
  - no changes have been identified at the time of this presentation

- Content of the SMPS is consulted upon at least annually (Jan/Feb) with interim consultations raised as and when industry changes require.
  - No responses were received in regard to the most recent consultation (July 2005)

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4. Multiple Day Offers

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Multiple Day Offers (1)

- An end-consumer may wish to only offer commercial interruption based on a number of consecutive days of interruption
- Multiple Day offers cannot be made on the OCM and can only be made on other markets
  - i.e. Such offers could not set cash-out prices and hence would not create balancing or delivery incentives.

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Multiple Day Offers (2)

- Users can contract with end-consumers for multiple day demand response contracts
  - Could be offered on the OCM on day 1 and hence could be accepted by the residual system balancer (Transco NTS)
  - Would benefit the Shipper on subsequent days

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