Tolerances and Welded Party Claims

ICD Process

23 October 2009

Scope

1. Interaction of Tolerances with Back to Back Balancing Cost Allocation.

2. Proposal on Welded Party Claims.

Tolerances – What we said earlier

- Under back to back balancing the cost of all balancing gas is allocated. If not allocated to welded points, it is socialised and recovered through the tariff.

- The primary effect of a moderate allocation of tolerances is to shift balancing costs from one welded point with imbalance to another.

- As tolerance levels increase, the level of socialisation of balancing costs also increases. This eventually manifests itself as increased tariffs.

- Tolerances act against the "cost to causer" principle.

- Our current thinking is to retain the provision for imbalance tolerances in the MPOC, but set them to zero.

Tolerances: Effect of Small Allocations

- Under Back to Back Balancing small tolerance allocations do not provide a cost exemption for that amount of gas.

Party	Running Imbalance	BG Allocation with No Tolerance	Tolerance	BG Allocation with Tolerance
A	50	25	10	23.5
B	70	35	10	35.3
C	80	40	10	41.2
TOTAL	200	100		100

Tolerances: Analysis

- Our views on tolerances are based on a detailed hour by hour analysis of past data, assuming daily cash outs using back to back cost allocation with and without tolerance allowances.

- We have limited the analysis to the period since 12 December 2008, (after the removal of the Legacy provisions). Earlier periods give similar results.

- The analysis involves about 6,000 lines of data.

- The unavoidable assumption for the base case is that pipeline behaviour will not change, but some of the cases examine possible changes in behaviour.
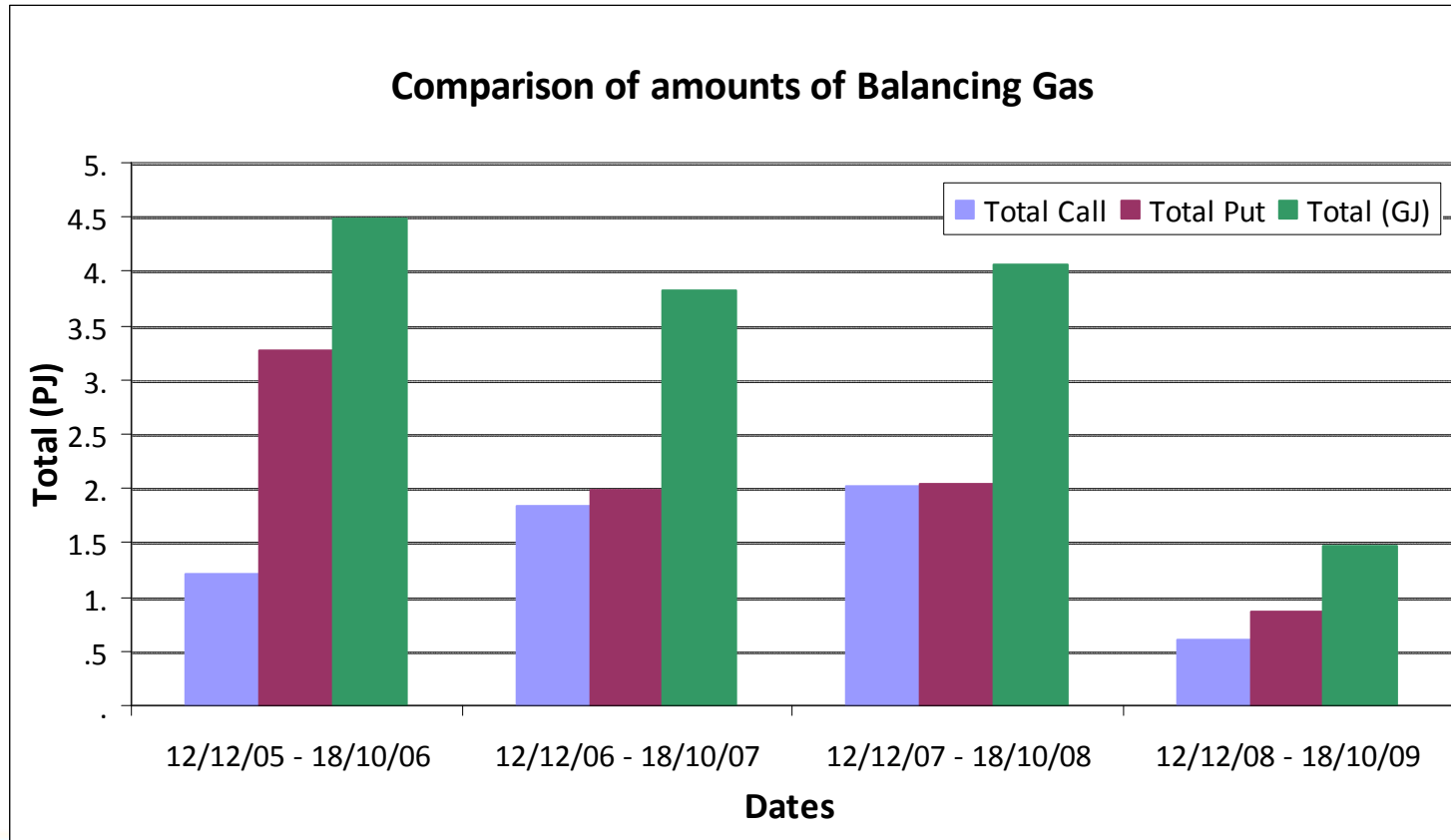
Tolerances: Analysis

We looked at two sets of cases:

- Tolerances set at 100%, 50%, 25% of current levels and at zero.

- Operational Imbalance and Balancing Gas use at 100%, 50% and 25% of recorded levels over the period of the analysis. This gives an indication of the effect of a change in pipeline behaviour.

Tolerances: Pipeline Behaviour

- Pipeline behaviour has changed since 12 December.

Comparison of amounts of Balancing Gas

Tolerances: Analysis Results

% Current Tolerances	% Recorded Ol & BG	% BG Cost Recovered
100%	100%	66%
50%	100%	93%
25%	100%	100%
0%	100%	100%
100%	50%	30%
50%	50%	66%
25%	50%	93%
0%	50%	100%
100%	25%	13%
50%	25%	30%
25%	25%	66%
0%	25%	100%

Tolerances: Discussion of Results

- Base case model used probably over-estimates recovery of costs because:
  - Back to Back balancing provides much greater incentive to correct positions after a balancing action has occurred.
  - The base case assumes pipeline behaviour will not change, when we think that further improvement is likely.
- Our conclusion is that tolerances must be greatly reduced for back to back balancing to be effective.
- Small tolerances are of limited value.
- The best and simplest solution is to set tolerances at zero.

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Welded Party Claims: What We Said

- We said we would seek Industry views on the inclusion of provisions for Welded Party to Welded Party claims formerly handled through the Incentives Pool. We noted that:
  - The Critical Contingency Regulations appear to reduce the need for this mechanism.
  - If it is retained, it should be developed in a way that does not leave the Balancing Agent as judge and jury for any claim made
- **Opinion expressed at the meeting was strongly in favour of retaining this mechanism**

Welded Party Claims

- Having given the matter some thought, we propose that:
  - Liability for Welded Party claims will be one of the consequences of running an imbalance. (MPOC Section 12.1)
  - They will be limited to circumstances of "Forced Operational Imbalance" as currently defined in MPOC Section 12.16.
  - Claims will have a cap calculated by multiplying the number of GJ lost by the Premium Fuel Value Fee.
  - Claims will be determined by the Market Administrator and referred to the Rulings Panel or an equivalent body if required.
- If agreed these provisions will be included in the MPOC change that introduces Back to Back balancing cost allocation.

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