



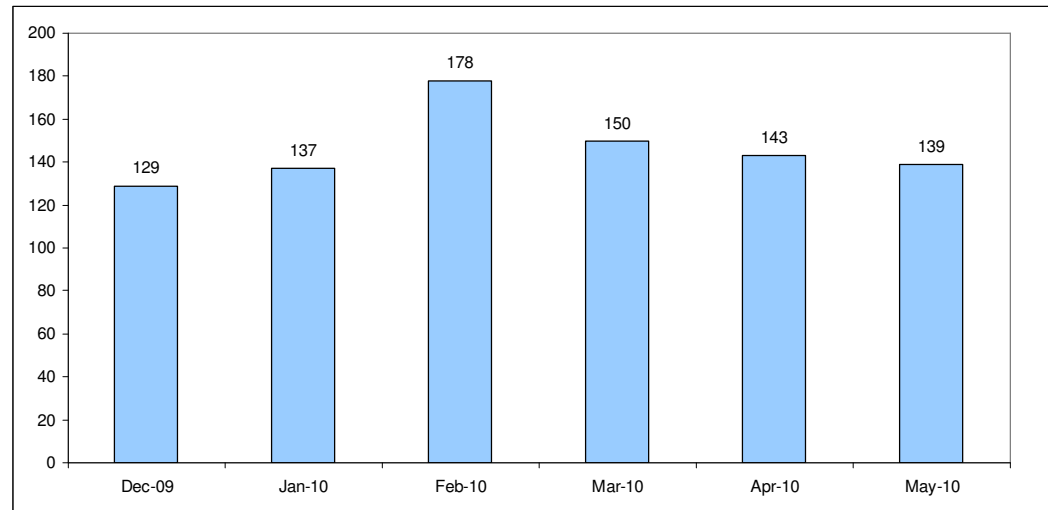
Determination & settlement of rule 37 breaches

27 May 2010

Andrew Walker & Jenny Howell

Background

- MA has refrained from making determinations pending formal process
- ~150 breaches per month
- expected to rise going into winter months



Aim

- **develop a fair, consistent and systematic approach to the determination and settlement of r37 breaches**
- **the process should:**
 - **remove trivial breaches**
 - **identify affected parties and quantify market impact**
 - **provide a mechanism for compensation**
 - **be consistent with the Compliance Regulations**

Method

- **GIC to consult on, and publish guideline(s) , which will specify:**

- **threshold to be applied**
- **how market impact will be determined**
- **terms for compensation**

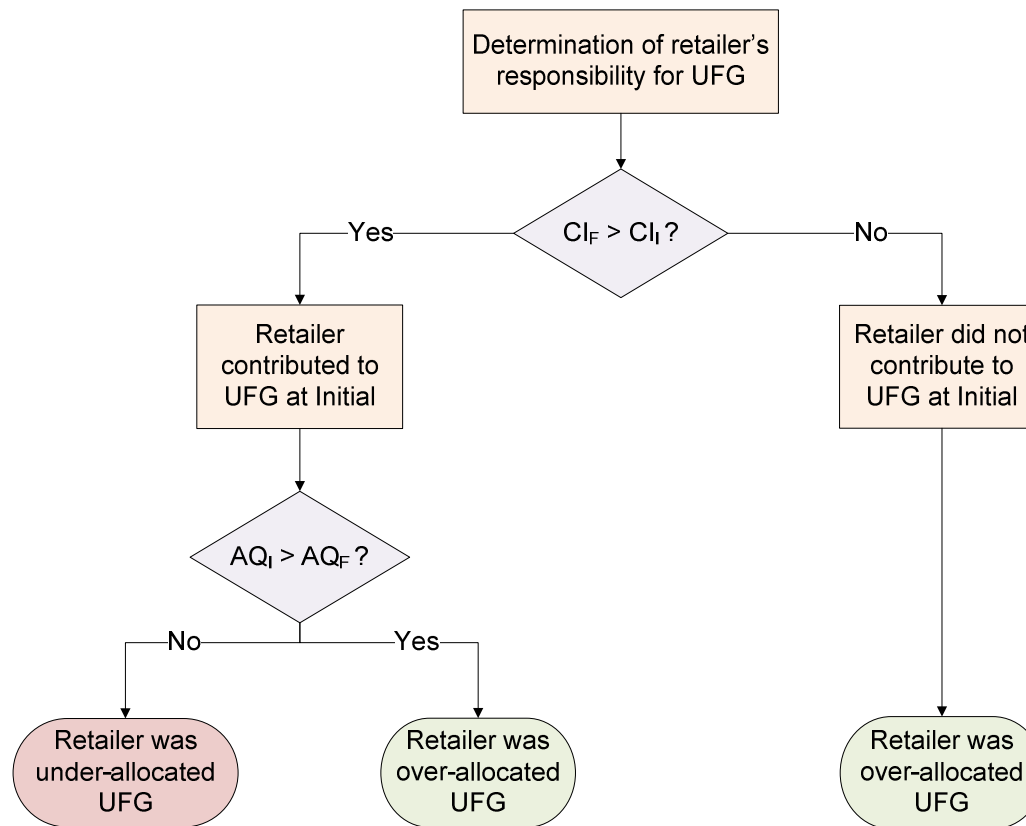
Applying threshold

- **GIC to determine optimal level for threshold**
- **below threshold → not material**
- **above threshold → further consideration**
- **all breaches published, so a party can still refer any breach under the threshold to MA for further consideration**

Determining market impact – overview

- **asymmetry of allocation information makes it difficult for each party to work out the impact of others' estimation inaccuracy**
- **GIC has an overview of gas gate activity so can evaluate effects of under (and over) estimation on allocated quantities**
- **algorithm proposed which will:**
 - determine who was under or over allocated gas at initial
 - quantify the market impact for a retailer at a gas gate

Determining market impact – step one



Determining market impact – step two

	Initial		Final		Market Impact		
	Non TOU CI	Non TOU AQ	Non TOU CI	Non TOU AQ	Over/Under	Amount	r37 Breach
Ret1	1000	1200	1500	1552	Under	352	Yes (33%)
Ret2	15000	18000	19000	19655	Under	1655	Yes (21%)
Ret3	25000	30000	28000	28966	Over	-1034	No (10%)
Ret4	500	600	500	517	Over	-83	No (0%)
Ret5	8500	10200	9000	9310	Over	-890	No 6%)

Total	50000	60000	58000	60000
--------------	-------	-------	-------	-------

sum +ve	2007
sum -ve	-2007

	Initial	Final
GGRP	60000	60000
UFG	10000	2000
MUFG	20%	3%

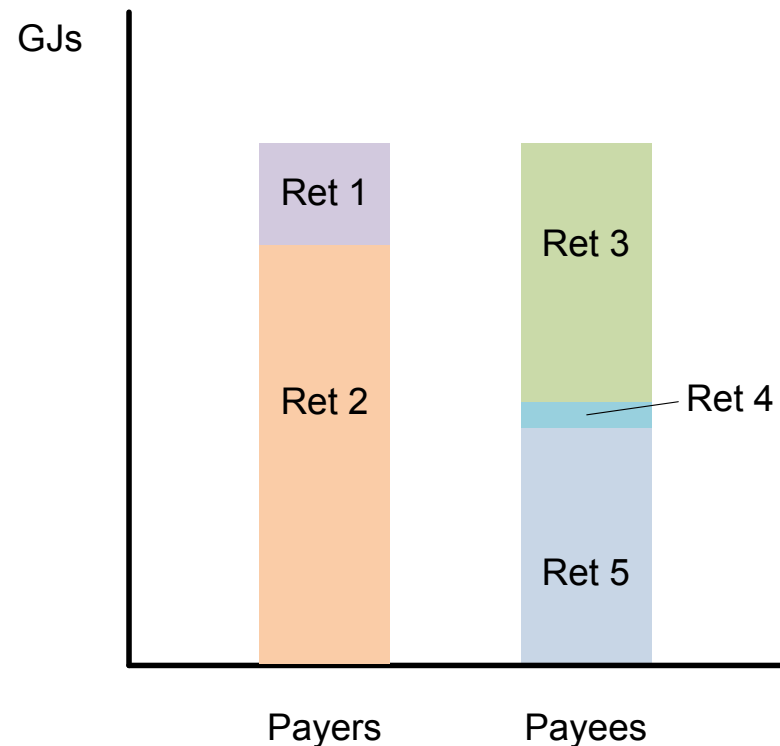
Retailers 1,2,3&5 under-estimated at initial

Retailers 1&2 were under-allocated at initial and breached rule 37

Retailers 3-5 were over-allocated at initial and should be compensated by retailers 1&2

Determining market impact – results

- **Retailer 3 impact is 1034GJ. 18% (186GJ) is attributable to retailer 1 and 82% (848GJ) is attributable to retailer 2**
- **Retailer 4 impact is 83GJ**
- **Retailer 5 impact is 890GJ**



Determining market impact – issues

- **Over-allocated retailers can only be compensated to the extent that the corresponding under-allocated retailers breached rule 37**
- **Other causes of changes between initial and final non-TOU allocations (change in TOU, change in injection)**
- **Other assumptions ($MUFG > 1$, $MUFG_I > MUFG_F$)**
- **Doesn't give a \$-value for compensation**

Determining compensation

- **BPP charges are main target for compensation since everything else is washed up at final**
- **BPP credits and debits arise from daily actions at Vector TPWPs (balancing gas trades, MPOC cash-outs, peaking charges)**
- **BPP charges are levied based on daily shipper mismatch positions which are derived from the sum of daily allocations at each gas gate within a BPP**
- **How to relate this to market impact determined at gas gate level?**

Determining compensation – BPP

- BPP charges could arise as a result of actions at any of the gas gates
- Compensation can only be sought for gas gates where there is a r37 breach
- How to map BPP charges to gas gates?

	ABC123	DEF456	GHI789	JKL012	MNO345	PQR678	STU901
Ret1	352	0	0	5	0	-269	0
Ret2	1655	0	-50	0	0	0	0
Ret3	-1034	0	0	6	127	7	0
Ret4	-83	0	-8	0	0	303	0
Ret5	-890	0	0	-46	0	-2	0

Postive number is GJ under allocated

Negative number is GJ over allocated

Direct connect gas gate

Bold indicates a breach of r37