

**Transco
Distribution**

**Distribution
System
Management
Principles
Statement**

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SYSTEM MANAGEMENT PRINCIPLES STATEMENT

Modification History

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PART A: INTRODUCTION

1. Purpose of the document

This document sets out the System Management Principles Statement ("the Statement") which Transco Distribution is required to establish in accordance with Standard Special Condition D5: "Licensee's procurement and use of system management services" of its Gas Transporters Licence ("the Licence") ("the Special Condition") and granted pursuant to section 7 of the Gas Act 1986 (as amended) ("the Act"). The purpose of the Statement is to describe the basis on which Transco Distribution will employ system management services for its Distribution system. Transco produces a similar document for its National Transmission System. The Licence places an obligation on the licensee to operate the system in an efficient, economic and co-ordinated manner.

The Statement has been developed to accompany Transco Distribution's DN incentive schemes and should be read in conjunction with its Distribution Procurement Guidelines.

For the avoidance of doubt the Guidelines refer to the DN's system balancing role and do not include energy balancing activities.

Transco Distribution recognises that its DN incentive schemes create commercial incentives that need to be considered in conjunction with its other obligations and therefore this document is designed to indicate the broad framework against which Transco Distribution will make system management decisions.

The document covers Transco Distribution's distribution system and references to pipeline and network should be construed accordingly. Transco Distribution's distribution system covers the following networks, as defined in Special Condition E2A of its licence:

- North West Network
- West Midlands Network
- East of England Network
- London Network

2. Transco Distribution Performance

In relation to responding to the DN incentive schemes and performing functions described in this document, Transco Distribution will seek at all times to follow the guidelines contained within and shall seek to act in good faith and in a reasonable and prudent manner in its dealings save to the extent that:

- there is any standard of performance already provided for by any statute, regulation or Licence condition to which Transco Distribution is subject; or

- the continued exercise of the discretions or functions described herein could cause Transco Distribution, in its reasonable opinion, to come into conflict with any provision of statute, the Licence or other regulation.

The Licence imposes on Transco Distribution an obligation to operate the system in an efficient, economic and co-ordinated manner. Ofgem has indicated that it would expect the obligation to be satisfied where Transco Distribution is responding to the commercial incentives in its DN incentive schemes. However Ofgem has indicated that Transco Distribution's behaviour should be appropriately constrained by the economic, efficient and co-ordinated obligation, for example, when its commercial incentives are not biting - such as when revenues relating to one or more incentive schemes are, or are expected to be, either greater than the incentive cap or lower than the incentive collar.

3. Change process

The Statement has been developed by Transco Distribution and the form of the Statement has been approved by the Authority. It may only be modified in accordance with the processes set out in the Special Condition. Transco Distribution will monitor the operation and application of the Statement and it is Transco Distribution's intention that it will meet Users on a periodic basis to review the operation of the Statement and, where appropriate, to consider modifications to the Statement.

The Statement makes reference to a number of provisions contained in the Network Code. In the event that any of the relevant provisions in the Network Code are modified it may become necessary for Transco Distribution to seek an amendment to the Statement in order that it remains consistent with the Network Code. Prior to any such amendment the Network Code shall take precedence over the Statement.

For the avoidance of doubt, this Statement does not form part of the Network Code.

PART B: GENERAL PRINCIPLES AND CRITERIA FOR SYSTEM MANAGEMENT ACTIONS

1. Licence Duties

In establishing the Statement the Licence requires Transco Distribution to set out the principles and criteria by which it will determine, at different times and in different circumstances, which system management services it will use to assist it in the operation of the distribution pipe-line system to which the licence relates, and for what purpose, and when it would resort to measures not involving the use of system management services in the operation of the distribution pipe-line system. Furthermore in establishing the Statement Transco Distribution must do so in a manner consistent with its statutory obligations to develop and maintain an efficient and economic pipeline system for the conveyance of gas and avoid undue preference or undue discrimination in the connection of premises to the system or the conveyance of gas through the system.

Transco Distribution's other principal regulatory obligation when carrying out the system management actions is to take all reasonable steps to do so in accordance with the Statement.

Whilst the DN incentive schemes might be considered to be a primary driver for Transco Distribution to become more dynamic and responsive to developments in the market place, Transco Distribution is obligated, subject to the exclusions defined herein, to adhere to the Statement. Transco Distribution must periodically deliver to the Authority and each User an externally audited statement to determine whether Transco Distribution has deployed system management measures in accordance with the Statement. Additionally Transco Distribution is required to report whether any modification should be made to that Statement to reflect more closely the Transco Distribution practice.

2. Criteria

The Statement cannot set out the particular system management measures to be employed by Transco Distribution in every possible operational situation.

The criteria applied in respect of deployment of system management services will take account of the DN Incentives; the obligation to be economic, efficient and co-ordinated; risk management considerations; and the aims included in Part F of this document.

The Special Condition recognises that in certain circumstances it may be necessary to depart from the Statement but that such departures need to be considered before deciding whether the Statement needs amendment. The reasons for departing from the detail of the Statement may include:

- where circumstances exist where not to do so would prejudice the interests of safety;
- where operational information indicates insufficient time is available to employ particular measures in accordance with the detailed processes defined herein if required effects are to be achieved;
- where the Statement has been shown to be inappropriate; or
- where Transco Distribution considers it to be more economic, efficient or co-ordinated to do so.

3. System Management Tools

The System Management tools used by Transco Distribution are designed to ensure the economic, efficient and coordinated delivery of gas to networks and supply points connected to the Distribution system in accordance with the Gas Safety Management Regulations under demand conditions as stipulated by its Licence within the commercial framework prescribed by Network Code. It does this through the management of system capacity and provision of linepack on the Distribution system facilitated by:

- provision of pipe-line capacity or use of storage within the Distribution system
- procurement of flow capability products e.g. NTS (Flat) Offtake Capacity and NTS (Flexibility) Offtake Capacity from the National Transmission System
- submission of revised offtake profile notices to NTS to amend flows into the Distribution system

Transco Distribution also has to procure shrinkage gas to make good the losses on the Distribution system incurred for instance as a result of leakage or use of gas for pre-heating at pressure reduction stations.

Transco Distribution's use of such tools will be influenced by the financial implications of its incentive arrangements, the necessity to achieve timely gas flow rate changes on the system and its broader obligations.

Transco Distribution shall have discretion in respect of which system management services envisaged within the Distribution Procurement Guidelines it may deploy.

Whilst not required as part of the requirements of this document Transco Distribution may also utilise interruption in accordance with the terms of the Network Code for the purposes of system management. The Network Code allows for interruption to be used for:

- constraint management purposes, i.e. to address a Transportation Constraint ;

- emergencies; or
- testing.

4. Timing of Actions

Transco Distribution will determine whether measures will be employed close to the time of gas flow taking account of programmed system inputs, forecast outputs and/or projected key pressures for each Gas Day and as a result of information received for the Gas Day from all sources including LOPs (with connected facility operators) and User Nominations. By taking account of the information received from these sources Transco Distribution will make operational decisions and apply the decision-making processes set out in this document.

Transco Distribution may also take actions well ahead of the Gas Day. This may be to reduce the size or cost of actions, or to improve the estimated risk profile against the DN Incentive Schemes given the expectation of possible prompt system management action requirement being necessary close to, or during, the Gas Day. Transco Distribution may use any other information, or its own assessments, to assess whether such actions would be appropriate.

5. Information Provision

Where Transco Distribution's deployment of system management services has a primary impact upon Users' exposures, for instance on Users charges, Transco Distribution will, as soon as reasonably practicable after such deployment, indicate to Users the impact of such deployment on charges. In respect of system management services where such deployment only has a secondary effect on Users Transco Distribution will have discretion as to what information about the deployment of system management services it publishes and when.

Sufficient information to establish the basis for any charges will be either released to support invoiced amounts or made available to an industry or Ofgem appointed auditor to confirm the validity of the charges.

6. Emergency Procedures

Under the circumstances defined in Transco's Emergency Procedure documentation Network Gas Supply Emergency Procedures (T/PM/E/1) and the Local Gas Supply Emergency Procedure (T/PM/E/2) under which Emergency Procedures would be invoked, the processes and procedures in that document shall supersede all considerations arising from this Statement.

**PART C: STATEMENT UNDERLYING SYSTEM MANAGEMENT
ACTIONS**

Not Used

PART D: SYSTEM MANAGEMENT

1. System Management Services

Services include:

Energy Tools

Transco Distribution may use the APX-operated On the day Commodity Market (OCM), or any other market, mechanism or contract to buy and sell gas for the procurement of shrinkage gas.

Capacity Tools

Transco Distribution may use NTS capacity services (NTS (Flat) Offtake Capacity and NTS (Flexibility) Offtake Capacity for the purposes of system management.

Storage Service Tools

Transco Distribution may procure any storage service from storage facility owners or operators, or any other market, mechanism or contract relating to physical or commercially based storage products for the purposes of system management where such storage facilities are connected to the pipeline system owned by the DN.

Demand and Supply Management Services

Transco Distribution may incentivise Users or end consumers to enter into contracts to affect desired gas flow offtake or delivery into the system in accordance with the terms of the Network Code.

Other Commercial and Contractual Tools

Transco Distribution may develop further services or enter into contracts that will enable it to better manage both its operational and commercial risks.

Linepack

Although not strictly a system management service to the extent of the inherent flexibility within the Distribution system, Transco Distribution will seek to utilise linepack as a means of avoiding the deployment of other balancing measures. Linepack is in this sense not a balancing measure in so far as its use does not impact gas flows onto or off the system.

PART E: SYSTEM MANAGEMENT TOOL DEPLOYMENT AHEAD OF THE DAY

Rather than wait for imminent gas flows for system management actions it may be appropriate for Transco Distribution to deploy tools ahead of the gas day. This may be assessed on risk management, efficiency or cost grounds, amongst other considerations (as described elsewhere).

For example, it may be that gas flows at particular points are expected to exceed the capability of the system and so, rather than wait until close to gas flow to achieve the aims defined in Part F, it may be appropriate to consider deployment of system management tool(s) at an earlier stage.

Transco Distribution will seek to develop and implement such tools wherever it appears viable to do so, taking account of its obligations to maintain a safe and secure system and its risk/reward profile defined in the context of the DN incentive schemes. Transco Distribution may also seek to develop new tools and liquidity to improve the effectiveness, range or cost of system management services in the longer term.

The deployment of such tools will be at the discretion of Transco Distribution and will be guided by consideration of the incentive schemes subject to Transco Distribution's other obligations.

PART F: DAILY SYSTEM MANAGEMENT CONSIDERATIONS

The following represents the aims of system management processes close to the time of gas flow:

- To maintain linepack levels and other key operational parameters within predetermined operating ranges at all times within the Gas Day whilst ensuring safe operation.
- To address exit constraints where flows are forecast to exceed assessed system capability.
- To implement interruption and give notice of potential interruption conditions.
- To identify potential operational or commercial requirements to use storage services.

PART G: GLOSSARY

Capacity Constraint	A constraint affecting part of the System which results in the gas flows in that part of the System needing to be restricted
Gas Day	The period from 0600 hours on one day to 0600 hours on the following day
LDZ	Local Distribution Zone
Linepack	The volume of gas within the DN pipelines calculated to facilitate delivery of gas to networks and supply points connected to the distribution system in accordance with the gas safety Management Regulations under demand conditions as stipulated by its GT Licence.
LNG	Liquefied Natural Gas
LOPs	Local Operating Procedures agreed between Transco and Delivery Facility Operators
MCM	Million Cubic Metres
NTS	The National Transmission System
NTS Offtake (Flat) Capacity	Is capacity which a Distribution Network operator is treated as using in causing or permitting gas to flow from the NTS at a rate which (for a given daily quantity) is even over the course of a Day
NTS Offtake (Flexibility) Capacity	Is capacity which a Distribution Network operator is treated as using or releasing from utilisation in causing or permitting gas to flow from the NTS to the extent that (for a given Daily Quantity) the rate of offtake or flow is not even over the course of a Day
OCM	On the Day Commodity Market - Trading System or contingency balancing arrangements
Projected Closing Linepack	The expected end of Gas Day linepack level
DN Incentive Schemes	Incentive schemes established by Ofgem to incentivise certain operational and/or commercial

behaviours on Transco as Distribution Network Operator