

Draft Modification Report
OCM Market Liberalisation
Modification Reference Number 0394

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The arrangements introduced by Network Code Modification 0313 defined that trades completed through the On the Day Commodity Market (OCM) could only be registered with Transco for trade Nomination Quantities expressed as multiples of 100,000 kWh blocks.

This Modification proposal seeks to enable commodity markets to register trades for Trade Nomination Quantities expressed as multiples of 1 kWh, subject to a minimum of 100,000 kWh.

Such a change would enable the Market Operator to offer greater choice to its customers. For example, the Market Operator might choose to offer an option to trade in block sizes based on a multiple of therms (expressed as an integral multiple of 1 kWh) to complement the current service based on multiples of 100,000 kWh.

2. Transco's Opinion

Transco believes that implementation of this Modification will provide greater trading flexibility which may enable the Market Operator to increase its product range. This may enhance the liquidity of the OCM thereby encouraging better shipper balancing and the provision of the Transco system balancing service at a lower cost.

3. Extent to which the proposed modification would better facilitate the relevant objectives

Implementation of the proposal may enhance the liquidity of the OCM and hence further foster competition between shippers. Such possible increase in liquidity may also improve the efficient and economic operation of the System by encouraging both individual shipper balancing and Transco's system balancing at lower costs.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

No major implications are anticipated although any greater liquidity in the market may enhance Transco's ability to effect timely flow changes on the system and therefore achieve more efficient balancing.

b) development and capital cost and operating cost implications:

Transco will incur some development costs to facilitate the changes associated with the market operator interface. These costs will involve IT systems changes and a comprehensive test and implementation programme involving the On the day Commodity Market (OCM) operator. The changes, once implemented, will have minimal impact on Transco operational procedures.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Transco is not proposing to recover these additional costs.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco is unaware of any such consequences.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco is unaware of any such consequence.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco will need to make changes to facilitate the changes advocated within this Modification proposal. This will require system development changes involving the Market Operator-Transco interface and the screen displays and reporting associated with the presentation of OCM NBP trade nominations.

The Market Operator will need to make changes within the OCM system should it wish to facilitate trades in multiples of other than 100,000 kWhs.

Other Users, wishing to trade via the OCM in multiples of other than 100,000 kWhs, may need to make changes within their systems.

7. The implications of implementing the Modification Proposal for Users

This proposal would enable Users to transact OCM trades in multiples of other than 100,000 kWhs. This should increase choice for Users as the Market Operator is expected to offer the current OCM trade options (unless the OCM market rules are changed).

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

The main implications would be for Users. However, increased liquidity may improve the efficiency of the within-day gas market and therefore may better facilitate competition along the supply chain. This may increase competition between Producers, between Users and between Suppliers. Such increased competition may reduce gas prices paid by Consumers.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is unaware of any changes in these obligations and relationships other than those in respect of the obligation by Transco to facilitate the necessary system interface associated with the proposal.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Enables the Market Operator to offer a wider product range in response to customer needs.

May increase liquidity in the OCM, thereby affording better opportunities for efficient shipper and system balancing.

Disadvantages

Greater complexity in respect of product range may decrease user-friendliness of OCM.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

This draft Modification Report is now circulated inviting representations.

Several Users have already indicated their support, subject to Transco absorbing the costs of system development and implementation, in anticipation that implementation will increase liquidity in the OCM.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation is not necessary to satisfy either safety or any other direct legislative requirement.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence

There is no implementation requirement arising from Standard Conditions 3(5) or 3(1).

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco will be required to complete system development and testing prior to the implementation of the new interface. The Market Operator will need to change the OCM system to facilitate a wider product offering.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco has already started the system development activity to facilitate implementation of this proposal. User acceptance testing will start shortly to ensure that Transco can implement the proposal by the end of May 2000 thereby enabling the Market Operator to enhance the OCM product range from such a date.

16. Recommendation concerning the implementation of the Modification Proposal

Transco believes that implementation of this proposal may provide an opportunity to enhance the liquidity within the OCM. This may increase the number of trading participants, the depth of the market, the number of trades and aggregate transaction quantities whilst lowering the price spread between bids and offers.

Transco therefore recommends that this Modification proposal should be implemented.

17. Text

Paragraph 4.3 amend to read

"4.3 A Market Offer may only specify:

(1) A Market Offer Specified Quantity which is expressed in multiples of 1 kWh; or

(2) A Market Offer Specified Rate."

Paragraph 6.3 delete.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: