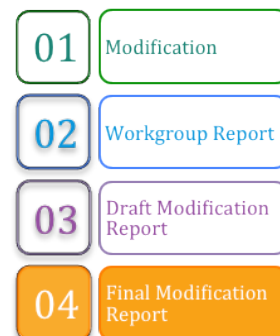


Stage 04: Final Modification Report

0471S:

Amending the start time that a Day-ahead Market Offer can be accepted

At what stage is this document in the process?



This modification seeks to amend the start time for which the Day-ahead On-the-day commodity market contract can be accepted from 12:00 to 08:00, to align with the Day-ahead power auction.



Panel consideration is due on 20 February 2014



High Impact:



Medium Impact:
Shipper Users, Trader Users, National Grid NTS



Low Impact:

0471S

Modification Report

29 January 2014

Version 1.0

Page 1 of 12

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Contents

1	Summary
2	Why Change?
3	Solution
4	Relevant Objectives
5	Implementation
6	Legal Text
7	Consultation Responses
8	Panel Discussions
9	Recommendation

About this document:

This Final Modification Report will be presented to the Panel on 20 February 2014.

The Panel will consider the views presented and decide whether or not this self-governance change should be made.



Any questions?

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0471S

Modification Report

29 January 2014

Version 1.0

Page 2 of 12

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is a self-governance modification, as it is not expected to have a material impact on competition or consumers.

Why Change?

Currently the On-the-day commodity market (OCM) daily Non-physical Market Transaction product opens for trading from 12:00 Day-ahead until 03:35 calendar day following the gas Day. To improve power market liquidity, new auctions have been implemented and will take place from 11:00 Day ahead. This modification proposes to support and facilitate Day-ahead power trading at this earlier time by opening gas OCM trading at 08:00 instead of 12:00. This will be especially relevant at weekends, when gas trading liquidity is thin.

Solution

The OCM trading hours are written into the UNC TPD Section D. The modification proposes to bring forward the start time of the OCM by four hours from 12:00 to 08:00.

Changes will be required to the Gemini platform and to ensure that the SAP calculation is updated to include this change to the OCM trading hours.

Relevant Objectives

The impact of the modification will be that Shipper Users and Trader Users will be able to trade the OCM Daily Title product on the OCM market from 08:00 Day-ahead. This will increase liquidity and ensure that the gas demand for CCGTs can be efficiently traded at the same time as the Day-ahead power auctions. This is particularly important on the weekend when gas trading liquidity is thin because of the lack of over-the-counter (OTC) market. These trades will also contribute towards the SAP reference price.

This meets Relevant Objective D.

Implementation

The implementation costs are at this point unknown although Xoserve has indicated they are not thought to be material and will be sub £100k.

While no implementation timescale is proposed, implementation is sought as soon as possible given that the Day-ahead power auction is commencing in February 2014.

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Panel decision to implement (subject to no Appeal being raised).

2 Why Change?

Shipper Users can buy or sell gas on the OCM, which is a screen-based gas trading market that allows Shipper Users to balance their daily gas positions. The terms and conditions relating to the operation of the Trading System are in UNC TPD section D.

Under the current terms and conditions Shipper Users are able to trade three products, which consist of:

- Non-physical Market Transaction (Title);
- Physical Market Transaction (Physical); and
- Locational Market Transaction (Locational).

ICE Endex is the assigned Trading System Operator for the OCM¹. Of the three products, Title is the most liquid and runs from 12:00 Day-Ahead until 03:35 calendar day following the gas Day

In the GB electricity wholesale market there has been a drive to improve liquidity. One of Ofgem's liquidity objectives for the electricity market is to 'promote an effective near term market which enables all companies to buy the power they need for their customers'².

One of the initiatives to achieve this has been the introduction of a Day-ahead GB Power auction. Following the North Western Europe (NWE) price coupling project the Day-ahead GB Power Auction gate closure will be 11:00. One of the barriers to the market using this auction is that prior to gate closure traders wanting to use the auction to schedule CCGTs Day-ahead need to have a reference gas price. As there is not a liquid Day-ahead gas market on the weekend until 12:00 this means that it is not possible to trade the spark spread in the auction due to the lack of a reference price. This is cited by many market participants as a primary reason for under-utilising the auction. This is not a significant issue on the weekdays as there is liquid OTC market.

If a CCGT operator is not able to trade both power and gas legs simultaneously then they are unable to lock in the gas/power spark spread, therefore are unlikely to use the auction. This is due to there not being a visible reference price to ensure that plant is being dispatched at a positive spark spread. Realistically, Shipper Users will need a gas reference price 1-2 hours before the Day-ahead power auction submission time of 11:00. Therefore it is proposed to open the Day-ahead OCM gas market at 8:00 in order to allow sufficient liquidity to be established before this time.

Being able to better schedule CCGTs at an earlier stage Day-ahead will improve system balancing in both the power and gas markets. If Shipper Users know what CCGT units are economical to dispatch Day-ahead then they will be able to send earlier physical gas nominations to National Grid NTS.

This modification suggests bringing the gas Day-ahead OCM trading start times in line with that for the GB power market to allow for more efficient trading.

The OCM platform only allows trading of the Day-ahead contract after 12:00. This is due to the fact that the UNC specifies that the contract is only available from 12:00 on the Day preceding the Market Offer Date. Note these timings are linked to the Gemini system.

Note, while only weekend liquidity has currently been identified as a particular issue (due to the OTC market being available weekdays) the modification is requested for seven days a week as this reduces the complexity of the change for ENDEX and Gemini, and simplifies operations for Shipper Users and Trader Users.

¹ In accordance with UNC TDP D2.1

² <https://www.ofgem.gov.uk/electricity/wholesale-market/liquidity>

3 Solution

It is proposed that the following sections of UNC TPD Section D are modified as below, to change the start time from 12:00 to 08:00.

2 TRADING ARRANGEMENTS

2.1.3 For the purposes of the Code:

(a) **"Trading System"** is an electronic trading system provided and operated by the Trading System Operator for the purposes described in paragraph 2.1.1; provided that references to the Trading System shall not include any part of such system by means of which transactions other than Market Transactions may be effected, or by means of which Market Transactions (other than Multi-Day Balancing Transactions) may be effected earlier than the 08:00 ~~12:00~~ hours on the Day before the Gas Flow Day;

ANNEX D-1

5.1 Except in the case of Multi-Day Balancing Transactions, Market Offers in respect of a Market Offer Date will be capable of acceptance by Trading Participants between 08:00 ~~12:00~~ hours on the Day preceding the Market Offer Date and 03:35 hours on the Market Offer Date. Market Offers in respect of Multi-Day Balancing Transactions will only be capable of acceptance by Trading Participants between 08:00 ~~12:00~~ hours on the Day preceding the first Day to which the Multi-Day Balancing Transaction relates and 03:35 hours on the first Day to which the Multi-Day Balancing Transaction relates.

User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

This Proposal is User Pays as Xoserve have indicated that a supporting Gemini change will be required.

Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.

It is proposed that the charge is attributed to Shipper Users and Trader Users because they are the beneficiaries of the extended service.

Proposed charge(s) for application of User Pays charges to Shippers.

It is proposed that costs be split between Shipper Users and Trader Users based on each parties' UDQI plus UDQO divided by total system UDQI plus UDQO on 1 November 2013 basis.

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

To be confirmed by Xoserve when costs are known. Indications are that these will not be material, and in the sub £100k category.

4 Relevant Objectives

Impact of the modification on the Relevant Objectives :	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

This modification, if implemented, would have a positive impact on Relevant Objective (d).

This modification, if implemented, will increase effective competition amongst Shipper Users and Trader Users by making it possible for generators to schedule gas plant earlier Day-ahead, in line with other thermal generation, enabling the efficient use of gas generation.

Further, the Workgroup believes that this modification will improve liquidity in both the prompt gas (and power) markets in line with Ofgem, EC and ACER objectives to improve liquidity across the energy markets. Increased market opportunities and increased liquidity are expected to facilitate the securing of effective competition.

5 Implementation

As self-governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, however this is subject to confirmation of the system implementation times.

6 Legal Text

Text

The Modification Panel requested Text at the November 2013 meeting. The following Text has been prepared by National Grid NTS, and no issues were raised by the Workgroup regarding its content.

It is proposed that Section D of the UNC is modified as below, to change the start time from 12:00 to 08:00.

2 TRADING ARRANGEMENTS

2.1.3 For the purposes of the Code:

(a) "**Trading System**" is an electronic trading system provided and operated by the Trading System Operator for the purposes described in paragraph 2.1.1; provided that references to the Trading System shall not include any part of such system by means of which transactions other than Market Transactions may be effected, or by means of which Market Transactions (other than Multi-Day Balancing Transactions) may be effected earlier than the 08:00 ~~12:00~~ hours on the Day before the Gas Flow Day;

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7 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
British Gas Trading Ltd	Support
EDF Energy	Support
E.ON UK	Support
Futures and Options Association (FOA)	Support
Gazprom Marketing & Trading	Support
InterGen UK Ltd	Support
National Grid NTS	Support
RWE Supply & Trading GmbH	Support
ScottishPower	Support
SSE	Support

Of the 10 representations received implementation was unanimously supported.

Summary Comments

In its representation, InterGen advises that, although only weekend liquidity has been identified as an issue, this modification is to be requested for 7 days since Bank Holidays can result in a similar situation with regards to liquidity. They go on to point out that they require a liquid forward wholesale power and gas market to be able to hedge their existing assets effectively. Currently the hedging required is only available in the prompt market, which leads to cash flow volatility and uncertainty for their shareholders thereby discouraging them from longer term investments in their existing assets and new development projects.

In their respective representations both EDF Energy and the Futures and Options Association (FOA) indicate that they believe that implementation of the modification may also have a positive impact on Relevant Objective b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/or (ii) the pipe-line system of one or more other relevant gas transporters due in part to the fact that earlier and more accurate scheduling of CCGTs on a weekend will improve the accuracy of the Offtake Physical Notifications (OPNs) that Shippers send to National Grid Day-ahead. Additionally, discussions between National Grid and Shippers in the Gas Operational Forum have suggested that a contributory factor to erroneous demand attributions and significant linepack changes is inaccurate OPNs for Daily Metered sites such as CCGTs. "Occasional demand attribution failures... generally linked to data entry issues by DNs/Shippers"³.

Furthermore, both parties believe that the modification will improve liquidity in both the prompt gas (and power) markets in line with Ofgem, EC and ACER objectives.

Additional Issues Identified in Responses

In their response, National Grid NTS state that whilst they agree with the Panel's decision that 0471S should be a Self-Governance modification, they do believe that consideration needs to be given on how best to implement the proposal, as the

³ Demand Attribution Update, October 2013 <http://www.nationalgrid.com/NR/rdonlyres/959A89C5-D47D-4F04-8D67-6DC09C690FBC/62817/DemandAttributionUpdate.pdf>

modification proposes a system change to the Gemini platform (i.e. any implementation date needs to align with the time at which changes to the Gemini platform could be made. It must also be recognised and considered that ICE-Endex, who operate the OCM trading platform, will need to make changes to their systems to implement this proposal). Furthermore, as a Self-Governance modification can be implemented as soon as 16 business days after an approval decision is given, they remain concerned that the system changes may not be aligned to meet these timescales and therefore the actual implementation date needs to better take account of system requirements.

Whilst the FOA do not believe that any participants would require a material lead-time ahead of implementation, they do recognise that there will be a system change required in order to facilitate this modification, but suggest that if the modification is accepted it should be implemented at the earliest time possible.

8 Panel Discussions

0471S

Modification Report

29 January 2014

Version 1.0

Page 11 of 12

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9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends [determined]:

- that proposed self-governance Modification 0471S should/should not be made.