URGENT MODIFICATION PROPOSAL

TITLE: Exclusion of Input Buy Actions from the Calculation of System Prices Where System Entry Buys Occur Within One Hour from the Acceptance of System Entry Sells to Relieve a Constraint at a Terminal.

DATE: 11 September 1998
PROP. IMPLEMENTATION DATE: 18 September 1998
URGENCY: Urgent Procedures Requested

JUSTIFICATION
During 1998 the industry has seen costs of constraints reach around £6m, mainly due to the taking of Input Buy actions as a result of a constrained Input Sell. The Input Buy action is currently included in the calculation of SAP, causing high prompt gas prices with corresponding effects on the forward curve, demonstrating market distortion.

CONSEQUENCE OF NOT MAKING THIS CHANGE
Input Buy actions taken as a direct result of a constrained Input Sell action will continue to be used in the calculation of SAP. Prompt gas prices will continue to be influenced by the higher SAP generated.

AREA OF NETWORK CODE CONCERNED
Section F: System Prices

Proposed Legal Text

1.2.1   Subject to paragraphs 1.2.2, and 1.2.3 and 1.2.4, for each Day: |

1.2.4   Where Flexibility Bids for System Entry Buys are taken within one hour from the time of acceptance of Flexibility Bids for System Entry Sells which have been accepted pursuant to Section D1.5.1, those Flexibility Bids for System Entry Buys shall excluded for the purposes of paragraph 1.2.1

NATURE OF PROPOSAL
The current method under Transco's Network Code (NWC) and Operational Guidelines (OG) to relieve constraints at terminals is to take an Input Sell (I/S) flex action for gas that is nominated in excess of the amount able to be moved away from that terminal.

This I/S action often leads to a corresponding Input Buy (I/B) action at another terminal to compensate for gas scheduled but not being input into the system. This Buy action, unlike the I/S, contributes to the calculation of SAP/SMP, the costs of which are smeared to the Shipping community.

This Buy action has the effect of setting a higher SAP, and hence drives prompt prices up. There is also a knock on effect on forward prices and contract prices for some large end users.

The Modification proposes that, where Input Buy actions are taken within one hour of a constrained Input Sell, those Input Buy actions shall be construed as directly attributable to the Input Sell actions and will not be used in the calculation of SAP.

PURPOSE OF PROPOSAL
To remove the distortion constrained trades cause to the price of gas

It should be noted that whilst this Modification does not resolve the complex issues surrounding constraints and cost targeting, this Modification will remove the market distortion currently being experienced.

Proposer   **Andy Blanchard**

Signature

Position   Network Code Manager
Company   Eastern Power & Energy Trading Limited

MODIFICATION PANEL SECRETARY'S USE ONLY
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Candidate Workstream   Energy