

Draft Modification Report
Modification Reference Number 0274

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:

On a day when a negative SMP sell price is set, and a User has incurred incremental input UGF and associated imbalance charges in excess of £5,000 arising from the failure to enter a zero nomination at one or more System Entry Points, then Transco shall on the User's request revise such input allocations as if zero nominations had been made at the relevant System Entry Point(s), for the purposes of removing input UGF and recalculating associated imbalance charges.

The Proposal is made on the basis that when negative SMP sell prices were set, the level of penalty arising from input UGF was excessive and out of proportion to any damage or loss caused or costs incurred.

The Modifications Panel agreed that further development of this Proposal was not required, provided that Transco advise the community if any User other than the Proposer incurred UGF according to the above criteria and if so, the magnitude of the re-smear. Transco can confirm that no other Users were affected and therefore in the interests of User confidentiality cannot disclose the level of materiality.

2. Transco's opinion:

Transco does not support this Proposal. Whilst input UGF provided a weak incentive for Users to nominate accurately, the potential for exposure through UGF charges was a risk that all Users knew of and could easily mitigate by inserting zeros, in accordance with the Network Code. This process was recognised to be inconvenient for Users and has since been resolved by Modification 0232.

Transco remains of the view that modifications which require retrospective changes should be discouraged to avoid setting precedents which undermine the robustness of current Network Code rules. This Proposal would also negate the good risk management of Users not exposed to UGF, particularly since smearing credits received as a result of the UGF charge would be debited and returned through neutrality to the non-nominating User.

However, Transco accepts that a negative SMP sell price does exacerbate input UGF charges to a level of materiality which may be disproportionate to the impact on the System. Transco has calculated the effect of removing the relevant UGF and adding the gas to the User's User Daily Quantity Input, thus amending the User's imbalance position for the days in question only. Were this Proposal to be implemented, Transco can confirm that the combined effects of overdelivery attracting the SMP sell price and the time value of money would result in the User not being fully refunded for the applicable UGF charges.

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

Condition 7, Relevant Objective (c)

The Proposal would make an exception to the rules in place at the time regarding input UGF. Provision of retrospective relief according to the suggested criteria would eliminate input UGF charges in some cases but not in others. Users would therefore not be treated equitably which would be to the detriment of effective competition.

4. **The implications for Transco of implementing the Modification Proposal, including:**

a) **implications for the operation of the System:**

The operation of the System would be unaffected.

b) **development and capital cost and operating cost implications:**

Transco would incur a small amount of additional operating cost to recalculate imbalance charges and adjust neutrality apportionment.

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:**

Costs would be negligible for Transco and would be included in normal operating expenditure.

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

Transco is not aware of any consequences on price regulation.

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:**

Implementation of this Proposal would set a precedent for amending other rules retrospectively, increasing the level of contractual risk to Transco.

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

There are no development implications for Transco or for Users.

7. The implications of implementing the Modification Proposal for Users:

On days when a negative SMP sell price was set and a User incurred input UGF and associated imbalance charges in excess of £5,000, all other Users would be required to pay back their credits received in consequence of that UGF to neutrality. The sum of these payments would then be returned to the original non-nominating User. With its input UGF charge removed, this User would then benefit from reduced imbalance charges.

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

Transco is not aware of any impact on these parties.

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:

Contractual relationships between Transco and System Users would be undermined. Transco is not aware of any legislative or regulatory obligations, nor of any consequences for Non-Network Code Parties.

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

Advantages	- The User who incurred input UGF charges according to the above criteria would be compensated and pay reduced imbalance charges.
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Disadvantages	- All other Users would provide such compensation. - Retrospective change undermines the rules governing other aspects of the gas balancing regime.
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11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report):

(To be completed).

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

Implementation is not required to facilitate compliance with safety or other legislation.

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

This Proposal is not required to comply with the above clause.

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

No programme of works is required to implement the Proposal.

15. **Proposed implementation timetable (inc timetable for any necessary information systems changes):**

Transco does not support implementation, therefore no timetable is provided.

16. **Recommendation concerning the implementation of the Modification Proposal:**

Transco recommends rejection of the Proposal.

17. **Text :**

No text is provided.

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: