

## **Modification Report**

**Modification Reference Number : 0084**

### **Proposed Modification to Admit a Recognised Clearing House as a Restricted User.**

This modification report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.12.4.

#### **1. Circumstances Making This Modification Urgent**

In accordance with Rule 9.2(a) Ofgas has agreed that this modification should be treated as URGENT because the International Petroleum Exchange (IPE) would like it's natural gas contract to be launched at the earliest opportunity.

#### **2. Procedures Followed**

TransCo agreed with Ofgas (and has followed) the following procedures for this Proposal:

5th November 1996 - Modification Proposal Submitted

6th November 1996 - Proposal Agreed as Urgent

11th November 1996 - Representations Received

12th November 1996 - Report to OFGAS

#### **3. The Modification Proposal:**

The proposal is to create a new category of 'Restricted User' in the Code. A Restricted User would be a Recognised Clearing House and be a User for the purposes of making Trade Nominations. As this type of User would not be shipping gas they would not require a Shipper Licence for these purposes.

Currently the Network Code restricts Users to those that have a Shippers licence. The IPE would like it's natural gas contract to be launched at the earliest opportunity and this proposal requires urgent consideration in order to facilitate this.

#### **4. Text provided pursuant to Rule 8.14.**

### **PRINCIPAL DOCUMENT - SECTION V**

Insert the following new paragraph:

#### **"2.5 Restricted User**

- 2.5.1 A body which is declared by an Order of the Secretary of State to be a Recognised Clearing House for the purposes of the Financial Services Act 1986 (as amended) may be admitted as a User for the purposes only of making Trade Nominations pursuant to Section C6.

2.5.2 Where a User is admitted pursuant to paragraph 2.5.1:

- (a) the User hereby undertakes to TransCo that it will not and will not purport to deliver gas to nor offtake gas from the System, make any Nomination, make any Flexibility Bid, become a CSEp User or the Registered User of any Supply Point, or hold System Capacity or Storage Capacity, or make a SystemCapacity Transfer or Storage Transfer, or otherwise exercise any right or entitlement of a User other than the right to make Trade Nominations pursuant to Section C6 and any rights (consequent thereon) arising under Section F, Section S, Section T, this Section V, Section U or the Supplement;
- (b) the User shall not make a Trade Nomination more than 5 Days before the Gas Flow Day;
- (c) the User shall not be bound to comply with any obligation under Section L, O or (except pursuant to paragraph 4 thereof) Q.

2.5.3 Where an Applicant User informs TransCo that it wishes to be admitted as a User pursuant to paragraph 2.5.1:

- (a) the requirements in paragraphs 2.1.2(b) and (d) shall not apply in respect of the Applicant User;
- (b) it shall be an additional requirement for the purposes of paragraph 2.1.1 that, at the same time as the User accedes to the Framework Agreement, TransCo and the User enter into a memorandum to record that the User is or is to be admitted pursuant to paragraph 2.5.1;
- (c) TransCo's notification to Users under paragraph 2.2.2(b) will specify that the Applicant User has been so admitted."

## **UK LINK OVERVIEW MANUAL - SECTION 5, CHARGING**

Insert the following additional text:

5.1

This section therefore sets out the charges which TransCo will make for services associated with the provision of UK Link to non-User UK Link Users "and Users admitted in accordance with Section V 2.5.1 in the Principal Document".

5.2

For the purposes of this section a non-User is a non-User UK LINK User or a User admitted in accordance with Section V2.5.1 in the Principal Document.

5. TransCo's opinion;

TransCo believes it is in the wider interests of the industry to facilitate the development of gas commodity trading markets.

TransCo is concerned that in widening the new class of User to include parties offering trading instruments would require TransCo to become registered under the Financial Services Act 1986.

6. Extent to which the modification would better facilitate the relevant objectives;

This would provide users with additional supply options to facilitate balancing.

7. The implications for TransCo of implementing the Modification Proposal, including:

a) implications for the operation of System and any BG Storage Facility;

TransCo is not aware of any impact on the System or any BG Storage Facility.

b) development and capital cost and operating cost implications

The Restricted User will be liable for the costs of the UK Link equipment. The modification will increase the workload of nominations analysts in matching the trade nominations and therefore increase operational costs.

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;

The Restricted User will be liable for the costs of UK Link equipment. The increase in time spent on trade nominations will be included in the normal operating costs of the business.

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

TransCo is not aware of any impacts on price regulation.

8. 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 not aware of any changes to the level of contractual risk.

9. The development implications and other implications for computer systems of TransCo and related computer systems of Relevant Shippers;

There will be greater use of trade nominations but minimal impact on TransCo's computer systems.

10. The implications of implementing the modification for Relevant Shippers.

Users will have additional supply options to facilitate balancing supply and demand.

11. The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party;

TransCo is not aware of any other impact on terminal operators, suppliers, producers and any Non-Network Code Party.

12. Consequences on the legislative and regulatory obligations and contractual relationships of TransCo and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal;

Under note (1), paragraph 8, Schedule 1 to Financial Services Act 1986, a contract made for commercial and not investment purpose is not counted as a future. Under note (3), a contract made less than 7 days before the date of delivery is treated as made for commercial purposes (this is a 'hard' rule rather than 'soft'). London Clearing House (LCH) have indicated that any NBP trade entered into by LCH would be entered into at the earliest on D-2.

On this basis it appears that no exemption is required by TransCo in relation to LCH, since all LCH's dealings will be made for commercial purposes.

We will be informing Her Majestys Treasury of this development, as a matter of courtesy, given the representations that we made to them when obtaining the original Exemption Order.

TransCo has not been informed of any other consequences on the legislative and regulatory obligations and contractual relationships of implementing this modification.

13. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal;

Advantages :

Users will have a cleared NBP gas trading market to better facilitate supply / demand balancing.

14. Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report;

In total 10 responses were received, of which 9 were in support of the modification. However 8 Users expressed concerns regarding the future possibility of widening the category to include other parties wishing to offer trading instruments but who do not qualify for a shipper's licence.

A number of Users also stated that they would have liked more time to be able to fully appreciate such a fundamental change to the Code and therefore recommended future proposals of this should be subject to greater consultation and review.

British Gas Trading requested that the commercial issues be discussed in an Open Forum Meeting.

15. The extent to which the implementation is required to enable TransCo to facilitate compliance with safety or other legislation:

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

16. 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:

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

17. Recommendation for the implementation of the modification:

This modification should be implemented immediately to ensure that the IPE's NBP contract can be launched at the earliest opportunity.

18. Restrictive Trade Practices Act


If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.


19. TransCo Proposal

This Modification Report contains TransCo's proposal to modify the Network Code and TransCo now seeks a direction from the Director General in accordance with this report.

20. Text provided pursuant to Rule 9.

Signed for and on behalf of British Gas TransCo.

Signature:   
Date: 12th November 1996

 Name: Chris Train

Position: Energy Balancing Manager

Director General of Gas Supply Response

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct British Gas TransCo that the above proposal be made as a modification to the network code.

Signed for and on behalf of the Director General of Gas Supply.

Signature: *Eileen Marshall*

Date: *19/11/96*

Name: *Dr Marshall*

Position: *Director, Regulation and Business Affairs*

The network code is hereby modified, with effect from  
the above Direction.

, in accordance with

Signature:

Secretary Modification Panel  
British Gas TransCo

## ANNEX

### **Restrictive Trade Practices Act - Suspense Clause**

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

#### **1. Suspense Clause**

- 1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:
- (i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") within 28 days of the date on which the Agreement is made; or
  - (ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

- 1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.