

**Modification Report**  
**Modification Reference Number 0232**

This Modification Report is made pursuant to Rule 7.4 of the Modification Rules and follows the format required under Rule 8.12.4.

**1. The Modification Proposal:**

Transco is proposing to set up activities for all shippers at all sub-terminals on AT Link and to insert zero nominations on their behalf at these entry points on a yearly basis. This will result in all sub-terminals appearing on shippers' nomination screens. Shippers will still be able to amend nominations but cannot withdraw activities or nominations once a zero nomination has been inserted.

If Transco fails to insert a zero nomination at a sub-terminal where a shipper subsequently makes a claim, then Transco will make an appropriate off-line adjustment to the shipper's balancing charges (imbalance cashout and scheduling) and overrun charges. However, to avoid additional, ongoing off-line calculations, neutrality apportionment will be based on the original throughput figures in AT-Link. The likelihood of such a coincidence is expected to be low and in any event the effects should be small (except where a shipper fails to nominate a significant flow at a particular sub-terminal).

If Transco inadvertently overwrites a shipper's nomination, then Transco will make an appropriate adjustment to the shipper's scheduling charges (the system holds the historical information for Transco to confirm the shipper's claim).

Transco will not accept any liability for any mis-allocations resulting from a zero nomination being present at a particular sub-terminal, nor will Transco re-calculate any balancing charges associated with any such misallocation.

The time limit restricting initial DM Output Nominations, Input Nominations and Trade Nominations will be increased to 35 days (from 30).

**2. Transco's opinion:**

While UGF offers some protection for the shipping community against the cost of unexpected gas flows resulting in system sell actions, the cost targetting can be inaccurate when actions and system prices arise which are not the result of the non-nominating shipper's UGF. In some cases this can be extreme, for example when the SMP sell price is negative. Shippers are also at risk from trades/allocations being attributed to sub-terminals unexpectedly.

While input UGF provides some incentive to nominate (and Transco are of the opinion that incentives to nominate and to nominate accurately should be maintained at input to ensure efficient operation of the System) it can easily be mitigated by inserting a zero nomination. Therefore, Transco does not believe this provides a strong incentive and insertion of zeros is burdensome for shippers. In addition, there is no incentive to make an accurate initial nomination at sub-terminal level. Consequently, a zero nomination would avoid any input

UGF, but could be as misleading to Transco as no nomination at all in the event that gas flowed.

Input UGF is deeply embedded in AT-Link coding relating to nomination/allocation screens and imbalance cashout and tolerances. Consequently, a systems solution is not cost effective and a manual solution is proposed.

The proposal is being put forward on a prospective basis only because shippers can, and do, take mitigating action to avoid input UGF and because the rules on UGF have been known since the start of the Network Code. Retrospective application would also set a precedent which has been avoided in Phase 2 of Network Code in relation to energy balancing modifications. Unpicking input UGF charges would require considerable resources and would have a knock on effect on the processing of other adjustments.

The proposal does not cover output UGF, mainly because a manual solution is not practical, the required systems changes would be significant and could not be justified in light of other priorities. Output UGF has dropped off considerably as portfolio information has improved. Occurrences of output UGF are brought to the attention of shippers which has helped to highlight portfolio discrepancies. In addition, UGF charges provide an incentive to nominate DM sites which should be retained, given the impact of initial DM nominations on NDM portfolios and accurate information flows should be encouraged to ensure the efficient operation of the system. Also, zero nominations are currently a deliberate entry onto AT-Link and consequently help Transco to track shipper interruption. This would not be possible if zeros were entered onto Link by default.

Transco accepts shippers' view that restriction of the initial nominations window to less than a calendar month can cause operational difficulties and is willing to extend the window to 35 days.

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

Condition 7, Relevant Objective (a)

The proposal reduces shippers' risk in relation to the entry allocation process through the alleviation of some of their administrative burden in trying to mitigate this risk, which will result in more efficient operation.

Extending the nominations window will facilitate improved shipper procedures for entering initial input, output and trade nominations and should lead to more accurate provision of information to Transco.

Condition 7, Relevant Objective (c)

Removal of the risk of incurring input UGF charges for all shippers at all sub terminals provides equitable treatment for all shippers. The proposal will remove any inequity where shippers can face input UGF risk as a result of others' actions.

4. **The implications for Transco of implementing the Modification Proposal, including:**
- a) **implications for the operation of the System and any BG Storage Facility:**  
Removal of sub-terminal level incentives to nominate may lead to unnecessary flexibility actions through increased uncertainty. However, the extension of the nominations window should lead to more accurate provision of information to Transco.
  - b) **development and capital cost and operating cost implications:**  
Development and capital cost implications are negligible. It is anticipated that additional operating costs will be offset by savings in processing input UGF at sub-terminals.
  - 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:**  
Not applicable.
  - d) **analysis of the consequences (if any) this proposal would have on price regulation:**  
Not relevant.
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 does not foresee any change in the level of contractual risk.
6. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**  
The proposal involves Transco manually inserting zeros into AT Link and therefore there is no impact on Transco systems. Transco does not anticipate any significant impact on shipper systems.
7. **The implications of implementing the Modification Proposal for Relevant Shippers:**  
Shippers will no longer have to mitigate input UGF at sub-terminals and will no longer be exposed to the resulting imbalance costs. The extended nominations window will facilitate improved shipper procedures for entering initial nominations.
8. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**  
Reduced incentives to provide Transco with information on anticipated sub-terminal flows may reduce the requirement for producers/traders to supply the information to shippers in a timely manner.

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

Transco is not aware of any such implications.

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

Advantages: - shippers will no longer have to insert zero nominations at sub-terminals to mitigate the risk of input UGF  
- shippers will not be exposed to the risk of imbalance charges resulting from input UGF at sub-terminals  
- non-nominating shippers will not face inappropriately targetted costs  
- the extended nominations window will facilitate improved shippers' procedures for entering initial nominations.

Disadvantages:- incentives to provide sub-terminal level nominations will be removed  
- the costs of flexibility actions resulting from unexpected flows at sub-terminals will be borne by the whole shipping community  
- there may be increased costs relating to unnecessary flexibility actions

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

Representations have been received from Amoco, Agip UK, East Midlands Electricity, British Gas Trading, Southern Electric Gas, BP Gas, United Gas, Powergen, Dynegy, Scottish Hydro Electric and Claims Validation Services. All respondents supported the modification proposal with the exception of East Midlands Electricity who did not state whether or not they supported the proposal. United Gas stated that they supported the principle of UGF removal.

Questions were raised in some responses over the method of implementation. **British Gas Trading** recognised that a systematised solution may not be cost-effective at this time, but recommended that Transco monitor the situation with a view to moving to a fully automated process and **Scottish Hydro Electric** expressed their surprise that a manual process was the most cost-effective. **United Gas** suggested that Transco has not considered all the options for implementation and advocated an after the day systems solution. Transco would reiterate that the costs of a fully automated solution have been investigated, and were estimated to be far in excess of those to be incurred by Transco manually inserting zeros. The manual process is not expected to be cumbersome, however, Transco would envisage a fully automated solution being reconsidered in the event of a complete system overhaul. In terms of monitoring, Transco will run a check to ensure the insertion of zeros has been achieved and would review the process from time to time with a view to maximising efficiency.

The aspect of the proposal to increase the lead time for DM output nominations, input nominations and trade nominations from 30 to 35 days was particularly welcomed by **Scottish Hydro Electric, British Gas Trading and Southern Electric Gas.**

**Southern Electric Gas** viewed this extension as sufficient to mitigate against shippers' incorrect allocations.

**Dynegy** expressed support for the retrospective implementation of the proposal, citing the example of FTI charges that have been retrospectively adjusted. Transco's view is that the costs of investigating and implementing retrospectivity in this area would outweigh any benefits. Shippers' exposure to input UGF is already small as a result of their mitigating actions by inserting zeros and the effect of this modification would simply be for Transco to do this on shippers' behalf.

In response to **Agip's** points, Transco intends to update the insertion of zeros on an annual basis and will communicate to shippers the date on which the first zeros will be entered and the date those zeros will take effect in the notice of implementation. **East Midlands Electricity** requested the facility to delete the zeros, however, such a facility would undermine the value and purpose of the proposal.

**CVSL** note that the proposal would be of great benefit to their month end close out process and regard implementation as a pre-requisite to the introduction of terminal level trading.

**Scottish Hydro Electric** noted that in their view, this modification was of minor operational significance compared with other issues currently being considered in the energy regime.

12. **The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation:**  
Not relevant.
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:**  
Not relevant.
14. **Programme of works required as a consequence of implementing the Modification Proposal:**  
Transco will be required to develop manual procedures to set up activities and insert zero nominations at sub-terminals on behalf of shippers.
15. **Proposed implementation timetable (inc timetable for any necessary information systems changes):**  
To facilitate the implementation of the manual procedures and to minimise the risk of errors, Transco will require a minimum of 35 days following Ofgas determination before the first of the zero nominations take effect.

The extension of the time limit on initial nominations to 35 days can be made immediately following Ofgas determination, which CVSL have requested is given no

later than 26th August to enable the introduction of terminal level trading on 1st October.

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

Transco recommend that this modification proposal is implemented in accordance with the above timetable.

**17. 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.

**18. Transco's Proposal:**

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

**19. Text provided pursuant to Rule 7.3**

**Section C: Nominations**

Insert new paragraph 3.2.4

"If in respect of a System Entry Point located on the NTS not being a Storage Connection Point, a User has not made an Input Nomination in respect of the Gas Flow Day, the User shall be deemed to have made an Input Nomination of zero at the relevant Input Nomination Time."

Amend paragraph 3.3.1

Initial Input Nominations may be submitted no earlier than 35 Days before the Gas Flow Day and no later than the Relevant Input Nomination Time.

Signed for and on behalf of Transco.

Signature:



*HL* **John Lockett**  
Manager, Network Code

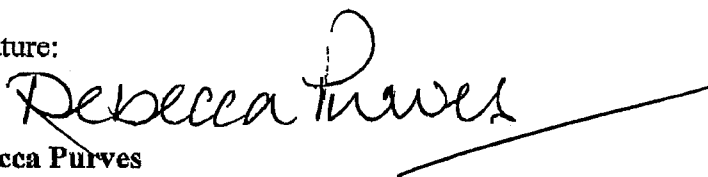
Date: 25.8.98

**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 Transco that the above proposal (as contained in Modification Report Reference 0232, version 1.1 dated 25/08/98) be made as a modification to the Network Code.

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

Signature:



**Rebecca Purves**  
Head of Gas Balancing

Date: 24 August 1998

The Network Code is hereby modified, with effect from 27/8/98, in accordance with the proposal as set out in this Modification Report, version 1.1.

Signature:



**Process Manager - Network Code**  
**Transco**

Date:

27/8/98

## 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.