

Draft Modification Report
Modification Reference Number 0232
Removal of Input UGF at Sub-Terminals

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 manually set up activities for all shippers at all sub-terminals and to insert zero nominations on their behalf at these entry points. 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 (in March 1998 output UGF charges were less than £1583 and affected 3 shippers). 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 zeroes 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:

The proposal will reduce the incentives on shippers to provide accurate information with respect to the anticipated location of deliveries to the system, specifically there will be no sub-terminal level incentives. This may impair the efficient operation of the system, although the impact is expected to be small. Reduced risk of input UGF charges may remove a potential barrier to entry.

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

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.

- 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 manual procedures 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 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 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):

[To be completed]

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.

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 Draft Modification Report is circulated for representations prior to finalising and seeking direction from the Director General for implementation of this modification.

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:

John Lockett
Manager, Network Code

Date: