

Draft Modification Report
Modification Reference Number 0245/0245a

This draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal:

Removal of restrictions on matching renominations which accompany acquiring and disposing trades at the National Balancing Point (NBP).

This Proposal was sent for development to the Energy Workstream where discussions took place but no consensus view emerged. The Modification Panel have now decided that this Proposal should proceed to consultation in conjunction with Modification Proposal 0305.

The rationale for including a requirement to match input and output renominations within the Network Code was to encourage Shippers to maintain their balance / imbalance position, as set up ahead of the day, and thereby reduce the corrective balancing action required by Transco. This was aimed at inhibiting the potential for gaming by facilitating a limited form of cost targeting, since information resolution was insufficient to target costs directly at those Shippers causing balancing actions. Removing the matching requirement for renominations following the execution of NBP trades would allow Shippers to change their imbalance position within day and could result in Shippers achieving a better balance position, thus reducing Transco's balancing role. It is also possible for the relaxation of the rules to result in an increase in Transco balancing actions.

2. Transco's opinion:

This Proposal applies to acquiring and disposing trades at the National Balancing Point (NBP) and does not specifically state that the matching principle should be removed for all renominations. However, it is Transco's opinion that, due to the volume and complexity of transactions that are likely to be generated by the introduction of this Proposal and Transco's consequent inability to track such trades to confirm compliance with any remaining matching rules, this Proposal would have the same effect as though the matching principle had been removed in full. Therefore Transco does not support this Proposal. However, Transco is in support of Modification Proposal 0305 which would operate the System under a regime where the matching renomination rules are removed fully for a trial period of one month. Transco believes it would be more prudent to implement this trial and assess the impacts fully prior to any rules being removed permanently.

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

It is considered that this Proposal may better facilitate the relevant objectives, namely; Condition 7a - *"the efficient and economic operation by the licensee of its pipe-line system"* and 7c *"the securing of effective competition between relevant shippers and between relevant suppliers"*, by :

- Facilitating the provision of real-time information from Shippers to Transco via AT Link renominations, by permitting Shippers to make non-matching renominations within day in regard to their NBP trades;
- Aligning Daily Flow Notifications (DFNs) more closely with AT Link Nominations;
- Enhancing Transco's ability to make appropriate operational decisions, thus reducing the likelihood of unnecessary System balancing action being taken by Transco and hence smeared costs;
- Improving individual Shipper risk management and reducing the associated costs of individual Shipper balancing by enhancing the ability to trade at the NBP;
- Reducing Shippers' risk of incurring unnecessary scheduling charges due to the inability to renominate on the basis of changes in portfolio position within day as a result of completed NBP trades;
- Facilitating the development of a liquid, within day gas commodity market.

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

a) implications for the operation of the System:

Operation of the System should improve with better information and greater Shipper ability to balance but there is a possibility of commercial behaviour requiring opposing action by Transco. Any degradation in nominations accuracy or timing could have significant operational implications in the following areas:

- Use it or Lose it - The 17:00 D-I nominations are used to scale back the initial allocation of secondary capacity. If the nominations are inaccurate then the scaling back process will be inaccurate.
- Non Daily Metered (NDM) forecasting - Inaccuracy in the Daily Metered (DM) nominations will impact Transco's forecasting of NDM demand.
- Operational Scheduling process - Any degradation in the 17:00 D-I nominations will result in the scheduling process being devalued.
- Assessment of balancing actions - Following Non Daily Metered (NDM) updates, Shippers are currently allowed one hour to respond via renominations. In a regime where Shippers are able to renominate to reflect NBP trades, Shippers may elect to delay their response to allow time to complete trades at the NBP to reflect their new position. This delay could impact on the assessment of any Transco balancing actions required and may, in turn, result in unnecessary balancing actions, or unnecessarily large balancing actions.

b) development and capital cost and operating cost implications:

No development or capital costs are envisaged.

- 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:**

Further to 'b' above, Transco does not envisage having to recover such costs.

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

No price regulation consequences are anticipated.

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:**

It is not considered that this Proposal would affect the level of contractual risk to Transco under the Network Code.

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

This Proposal does not entail any systems impact since the matching requirement is manually checked by Transco's Commercial Operations team. Transco has not been informed of any impact on the systems of Users.

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

Shippers will be able to reflect in their commercial nominations any changes in their entry and exit provisions within day without having to match changes in one aspect with the other. As a result, Shippers will be better able to provide Transco with improved real-time information regarding their true portfolio balance position within day, thereby further facilitating compliance with their licence condition 2 (3) "*The licensee shall not knowingly or recklessly give a false impression to a relevant transporter as to the amount of gas to be deliveredor as to the amount of gas to be comprised in its offtakes of gas therefrom on that day.*"

It is anticipated that the Modification Proposal will facilitate further development of the gas trading markets, thus enabling Shippers to use these markets more effectively to achieve portfolio balance. This, in turn, would reduce Transco's role as System Balancer and likewise System balancing costs. To the extent that this is achieved it is possible that the Modification Proposal will reduce the amount of smeared charges.

However, the ability, provided by the Modification Proposal, for a User to adjust their imbalance position following an NBP trade may result in an increase in the number and size of national supply/demand balancing actions by Transco, un-targetted costs and an increase in smeared 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:

The Modification Proposal may lead to more frequent changes to Delivery Flow Notifications (DFNs), Offtake Profile Notices (OPNs) and physical flows, thus having a potential effect on all the above 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:

Transco is not aware at this time of any impact of this Modification report on the legislative or regulatory obligations of Transco. However, further detailed risk assessment of the proposed Modification would need to be conducted prior to any permanent implementation; to assess any impact on System safety and Transco's safety case.

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

Potential advantages:

- Better information provision.
- Improved Shipper balancing.
- Reduction in System balancing costs.
- Increased liquidity in traded gas markets.

Potential disadvantages:

- Increased operational uncertainty / risk.
- Risk of increased System balancing costs.
- Increased number of Transco balancing actions.
- Opportunity created for Shippers to avoid some of the costs they generate.
- Reduction in quality of information provided.
- Reduction in System operational efficiency.

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:

Transco is not currently aware that this Proposal will affect its ability 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 does not affect the methodology established under the above clause.

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

No programme of works would be required.

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

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

16. Recommendation concerning the implementation of the Modification Proposal:

Transco recommends that the Proposal is not implemented.

Transco recommends implementation of Proposed Modification 0305 following the assessment of which a permanent or modified approach (eg. that suggested by Proposed Modification 0245) could be considered.

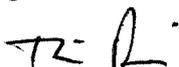
17. Text :

Transco does not support implementation, therefore 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: 11/1/99