

**Final Modification Report**  
**Modification Reference Number 0245/0245a**

This 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).

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 minimise the corrective balancing action required by Transco. This was aimed at inhibiting gaming by facilitating a limited form of cost targeting, where 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.

This Proposal was raised by a Shipper and was sent for development by the Modification Panel. In accordance with the Modification Rules in place at the time, Transco raised alternate Proposal 0245a, although this is no different to the original Proposal 0245. Discussions took place in the Energy Workstream but no consensus view emerged. This Proposal was circulated for consultation in conjunction with Modification Proposal 0305, Removal of the Requirement to Match Input and Output Renominations for a Trial Period, in accordance with the decision of the Modification Panel.

**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-1 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-1 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 delivered .....or 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, untargeted costs and 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 unaware at this time of any impact of this Modification report on the legislative or regulatory obligations of Transco. However, further detailed risk assessment of this Proposal would need to be conducted prior to its implementation to assess any impact on System safety and Transco's safety case. Furthermore, any necessary changes identified during this assessment would need to be in place prior to implementation of this Proposal.

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

Potential advantages:

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

Potential disadvantages:

- Increased operational uncertainty / risk.
- Risk of increased overall System balancing costs.
- Increased number of Transco balancing actions.
- Opportunity created for Shippers to avoid some of the costs they generate.
- Reduction in the 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):**

Representations have been received from Southern Electric Gas, Enron, National Power, British Gas Trading (BGT), Dynegy, United Gas Services, Scottish and Southern Energy and Yorkshire Energy. Most respondents expressed a preference for Modification Proposal 0305 to be implemented rather than 0245, but with Enron and Dynegy wishing to see Modification Proposal 0245 implemented. Yorkshire Energy is opposed to the implementation of both Proposals 0245 and 0305.

National Power and Southern Electric Gas expect Modification Proposal 0305 will enable Shippers to provide Transco with better quality information than Modification Proposal 0245. BGT supports 0245 being held open until the outcome of the trial under 0305 has been concluded. United Gas Services supports the principle of 0245 but believe that 0305 supersedes 0245. Scottish and Southern Energy recognises that 0245 goes some way to removing barriers to within day trading, but believe that 0305 is the better option.

Yorkshire Energy registered a concern that Shippers must not be permitted to change their balances within day to take commercial advantage at the expense of Shippers who daily balance. Yorkshire Energy further commented that NBP inventory swaps undermine Modification 169 trading and may result in conflicting information between DFNs and AT Link, which, in turn, could lead to inappropriate Transco balancing actions, increasing costs for all Shippers. To overcome such problems, Yorkshire Energy recommend tightening scheduling incentives for Shippers to provide accurate nomination information and widen the relief under section C5.4.6 of the Code to permit greater flexibility.

Dynegy prefers 0245 because there is no threat of a complex structure of phased scheduling charges attached to it, but agree with 0305's premise that a trial period is a sensible measure. Enron regards the current requirement for matched renominations as a barrier to trading at the NBP, whose removal is necessary for the success of the OCM and the promotion of more efficient and economic trading. Enron also notes that in order for Transco to reduce its balancing role, Shippers must play a role in System balancing. Enron supports 0245 because it meets these two objectives, more liquid trading at the NBP and Shippers contributing towards balancing of the System, without a move to unfettered position taking. Shippers would be able to alter their within-day balance, but only to the extent of a within-day trade at the NBP, which would still be subject to approval by Transco. In this way, a Shipper could legitimately bring gas onto the System at a time of shortage, without requiring flexibility action. The fact that two Shippers are involved would cut down the opportunity for an individual Shipper to game the System. Most importantly, states Enron, Transco retains primary access to trading and renomination information to assess whether trades are being done to destabilise the System balance. Transco is therefore in prime position to report cases of suspected abuse and seek to reintroduce restrictions at the earliest opportunity, if necessary.

Enron recommends that once Transco and Shippers are satisfied that these changes in the renomination rules are working appropriately, Modification Proposal 0305 should then undergo a trial period of assessment before implementation. However, Enron suggests that if Transco is concerned about making a permanent change to the Network Code, it would be more prudent to implement Modification Proposal 0245 for the trial period.

### **Transco's Response**

Transco acknowledges Yorkshire Energy's concerns with regard to information provision, erosion of the Shipper daily balancing principle and the ability of some parties to take commercial advantage of the revised regime. Whilst Transco has concerns that any relaxation of the matching renomination principle may give rise to an increase in balancing costs, Transco also recognises that such relaxation may also result in better information provision, thereby reducing the number and size of its balancing actions. Therefore, before making a permanent change to the matched renominations rule, Transco believes it would be appropriate to conduct an assessment of such a revised regime on a trial basis. Regarding Yorkshire Energy's alternative proposal that Transco should widen the relief granted in Network Code section C5.4.6, Transco would encourage Yorkshire Energy to submit an outline proposal to the BC99 workgroup to enable the industry to respond.

Transco is concerned that the Proposal does not give any details as to how Shipper nominated imbalance changes as a result of NBP trades would be monitored and policed during the Gas Day. If it is Enron's assertion that these factors are accounted for following the Gas Day by comparison between a Shipper's aggregated nominated imbalance change and their net NBP trades balance, Transco considers that the effect of this Proposal is no different to that of Modification Proposal 0305. This is the case since the 0245 Proposal allows Shippers to change their net imbalance position through trading at the NBP. That is to say that a Shipper can transact a trade allowing them to deliver or offtake more gas without necessarily invoking a corresponding physical renomination. After the day, Transco would be unable to identify which physical renominations related to which trade without a relevant paper trail. It is not clear what Transco would do in the event that there was a discrepancy. If it is Enron's assertion that these trades are monitored within day to reject any renominations that are not associated with trades, then Transco is unsure how this can be achieved without recourse to a faxed based matching and approvals process similar to the existing Modification 0169 rules.

Therefore, supporting the majority of Shippers' views, Transco considers that this Modification Proposal should be rejected in favour of Modification Proposal 0305.

### **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 Condition.

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, and 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 Modification Proposal 0305, following the assessment of which a permanent or modified approach (eg. that suggested by Modification Proposal 0245) could be considered.

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 not to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

19. **Text :**

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

Signed for and on behalf of Transco.

Signature:



**Tim Davis**

**Manager, Network Code**

Date:

**Director General of Gas Supply Response:**



## 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.