Draft Modification Report
Removal of Unauthorised Gas Flow Charges from the Network Code
Modification Reference Number 0448

Version 4.0

1. The Modification Proposal

British Gas Trading suggested that:

The removal of output UGF from the Network Code has been repeatedly raised as an issue since Modification Proposal 069 was raised in 1996.

The original intention of UGF charges was to encourage shippers to make nominations at entry and exit points, which would provide valuable information to Transco to enable both accurate system scheduling and NDM demand forecasts to be produced.

However, a shipper can avoid UGF charges by entering a zero against the relevant activity on AT-LINK. This can be administratively burdensome for shippers and dependent on the number of nominations that have to be entered, can lead to oversights. Such an oversight would result in a UGF charge at SMP. The level of this charge is inconsistent with the negligible impact on Transco's ability to correctly schedule outputs on the system.

Modification 232 - Removal of Input UGF at Sub-Terminals was implemented in August 1998 and resulted in Transco entering zeros at all sub-terminals for all shippers. In the letter accompanying the implementation of this change, Ofgem made it clear that they expected the issue of output UGF to be dealt with at the energy workstream.

Despite repeated attempts by shippers there has been reluctance by Transco to progress this issue. This proposal is intended to facilitate the removal of output UGF

2. Transco's Opinion

Unauthorised Gas Flows (UGFs) have been a feature of the balancing regime since Network Code began on 1 March 1996. A number of Modification Proposals were raised from August 1996 onward, aimed at either addressing the impact or removing the concept of UGF from the Network Code. Whilst Modification Proposal 0069, which addressed the removal of both entry and exit UGFs, was rejected, Modification Proposal 0232 for removal of entry UGF was implemented in September 1998. At that time, Ofgem was of the view that exit UGF should be debated further.

Exit UGF has remained a discussion topic at the Energy and Capacity Workstream for some time.

Shipper charges associated with exit UGF only arise if shippers fail to insert output nominations. Charges are based on the quantity of unauthorised energy flowed multiplied by SMPbuy price. In addition, scheduling charges apply as normal. The shipper exposure however, depends on the SMPbuy-SAP or SMPbuy-SMPsell price differential, depending on the extent of shipper imbalance and the scheduling charge. This is because exit UGF charges at SMPbuy would be offset by changes in imbalance charges at SAP and/or SMPsell had

nominations been entered. Shippers can however, avoid exit UGF charges by inserting zero exit nominations, a process which Transco understand can be cumbersome for shippers with a relatively large number of exit meters.

Transco has been of the view that the exit UGF regime has a beneficial influence on shipper nomination accuracy thereby enhancing the efficiency of balancing decisions, interruption management and NDM demand estimation. For this reason, Transco has been seeking a solution that, whilst removing exit UGF charges, might improve the scheduling regime. In order to further the relevant objectives, Transco is of the opinion that exit UGF charges could be removed whilst pursuing provision of high quality nomination information separately.

The methodology for removal of exit UGF charges suggested by British Gas Trading constitutes automated insertion of zero output nominations. The number of exit meters is significantly larger than the number of entry meters and a manual solution (as is currently the case for entry meters) may be an inefficient way of removing exit UGF charges. Transco has some reservations about the proposed solution to automatically insert zero nominations as this would generate a large volume of unnecessary default data points that might have an adverse effect on other processes. Transco is therefore considering an alternative approach that might suppress exit UGF charges. Such an approach might be developed such that exit gas flows generate exit allocations in the same manner, independent of whether a shipper has made a corresponding exit nomination. Such an approach might ensure that Energy Balancing and Neutrality processes could function in the normal way and generate appropriate effects although some minor changes to ensure that scheduling charges are applied correctly may be required.

For the purpose of Output Nominations, Network Code treats different types of Exit Points differently. Such treatment is directly influenced by relevant provisions of specific contractual arrangements for Connected System Exit Points and Interconnectors. The impact of these arrangements on any potential solution may be significant and must be considered carefully in determining a robust solution.

Transco therefore supports the objective underlying the Modification Proposal but believes that there may be alternative approaches that might better facilitate the relevant objectives.

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

The Proposer did not indicate the extent to which the proposed Modification would better facilitate the relevant objectives, and views on this would be welcome.

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

a) implications for the operation of the System:

Exit UGF charges have the potential to encourage accurate DM nominations. Removal of such charges may reduce nomination accuracy which may impact Transco's energy balancing decision making and interruption management processes

b) development and capital cost and operating cost implications:

Transco is currently undertaking system impact assessment, and assessing the cost implications.

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:

Costs of system development would be met from allowed revenue for such purposes.

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

Transco is not aware of any impact on price regulation.

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 is not aware of any consequence for contractual risk as a result of implementing this Modification Proposal**.**

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

Transco's computer systems would need to ensure that the allocations are correctly attributed and appropriate charges, including imbalance charges and scheduling charges, are correctly calculated and invoiced.

Insertion of zero nominations might have an impact on shipper systems (even if only at the margin) because of increased data volumes.

7. The implications of implementing the Modification Proposal for Users

If the Modification Proposal is implemented, Users would not face exit UGF charges. Since UGF charges are based on System Marginal Price (buy), Users might face reduced exposure to SMP (buy).

Removal of exit UGF charges would result in 'UGF volume' contributing to the User UDQO and hence would have an impact on User imbalance.

Users would also avoid administrative effort for entering zero exit nominations

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

Transco is not aware of any implications for terminal operators, consumers, connected system operators,storage operators, suppliers, producers or any non-Network Code party.

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 of any such consequences..

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

Advantages:

Transco would incur reduced administration costs associated with invoicing processes.
Users would not face UGF charges and might avoid exposure to SMP (buy).
Users would avoid administrative effort entering zero exit nominations.

Disadvantages:

User exit nomination performance may deteriorate.
Lack of accurate nomination information may have an adverse effect on Transco's energy balancing decision making, interruption management and NDM demand estimation.

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

Representations are now sought in respect of this Modification Proposal.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

This Modification is not directly linked to Transco's compliance with any 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 License

This Modification is not required to comply with the above clauses.

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

User exit allocations and subsequent User charges would need to be adjusted to account for exit 'UGF volume'.

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

Transco would wish to implement a solution as soon as reasonably practicable.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation of this Modification Proposal. However, Transco would wish to build on BGT's Proposal and develop a more efficient solution that could achieve the same desired outcome.

17. Transco's Proposal

This Modification Report contains Transco's proposal not to modify the Network Code and Transco now seeks agreement from the Director General in accordance with this report

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 Development
Date: