Modification Report
Provision of Shrinkage Information : Gas Procurement & Disposals
Modification Reference Number 0692

Version 1.0

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

In respect of each Gas Day, the Shrinkage Provider should publish gas procurement and disposal information associated to the Transco NTS SO incentives.

i. The net quantity of gas purchased and sold* (kWh).
ii. The quantity of gas purchased (kWh).
iii. The quantity of gas sold* (kWh).
iv. The total number of buy and sell* trades executed.
v. The weighted average price of all buys (p/kWh).
vi. The weighted average price of all sells* (p/kWh).
vii. The minimum price at which the gas was bought (kWh).
viii. The maximum price at which the gas was bought (kWh).
ix. The minimum price at which the gas was sold* (kWh).
x. The maximum price at which the gas was sold* (kWh).

* where occurred

This information should be provided to Users in a readily accessible form, and in a timely manner. The frequency of publication should be aligned to the Shrinkage Provider's internal operational and administrative activities that process and collate this type of information. The information would be published daily, each business day following D+5.

2. Transco's Opinion

Transco has based this Proposal on Modification Proposal 0618 "Publication of shrinkage provider gas procurement and disposal information" that was raised by London Electricity but subsequently rejected by Ofgem. In its decision letter regarding Proposal 0618, Ofgem noted Transco's concerns that the provision of ex ante information could place the Shrinkage Provider in a distressed commercial position. To address these concerns this revised Proposal excludes the categories of ex ante information previously included in Modification Proposal 0618.

Transco recognises the industry's desire for greater information provision and increased transparency of incentivised activities and is supportive of such initiatives where the benefits can be quantified and demonstrated and these benefits outweigh any costs.

Transco also acknowledges that the provision of this particular dataset may assist those Users and Non-Network Code Parties that may wish to monitor the performance of Transco in the operation of its Shrinkage Provider activites against the NTS SO incentives.

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

This Modification Proposal may, if implemented, better facilitate the relevant objectives of the efficient and economic operation of the pipeline system for the following reasons:

- Increase competition between Users for the provision of gas procurement and disposal arrangements to the Shrinkage Provider thus reducing the cost of shrinkage provision and may improve liquidity in the market for shrinkage gas management services;
- Enable Users and Non Network Code Parties to monitor Transco's performance in relation to its Licence obligations and NTS SO incentives;
- Improve transparency in relation to the Shrinkage Provider's NTS gas procurement and disposal activities in the gas market.

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

a) implications for the operation of the System:

Transco anticipates there would be no such implications.

b) development and capital cost and operating cost implications:

Transco anticipates that there would be computer system development costs in the order of £20,000.

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:

Any NTS SO costs would be shared with Users through the operation of the internal cost element of the SO incentive scheme arrangements.

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

Transco anticipates that the implementation of the Modification Proposal would have no such consequence.

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 anticipates that the implementation of this Modification Proposal would have no such consequence.

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

New computer systems and processes will be required to support the implementation of this Modification Proposal, should Ofgem so direct.

Transco is supportive of the provision of timely and accurate information on an equitable basis and as such, anticipates that this data will be published electronically via the Transco Information Exchange website. The data will be available to users of the website in both viewable and downloadable formats, for example, PDF and Excel respectively.

The rationale behind the proposed implementation date (1st October 2004) of this Modification Proposal is publication via the Information Exchange website has a technical dependency on an internal Transco IS project that will result in an upgrade to the hardware and software that supports the website. The objective of the technical upgrade is to improve Information Exchange system performance and enhance its capability for the future development of information provision, including the implementation of this Proposal. The planned implementation date of the technical upgrade is September 2004.

7. The implications of implementing the Modification Proposal for Users

Should this Proposal be implemented, Users would have access to increased information provision in respect of the Shrinkage Provider's gas procurement and disposal activity.

8. The implications of implementing the Modification Proposal for Terminal Operators,Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Should this Proposal be implemented, Non Network Code Parties and Consumers would have timely and equitable access to the Shrinkage Provider's gas procurement and disposal information on the same basis that Transco would provide it to Users.

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

Implementation of this Modification Proposal would oblige Transco to publish information relating to the Shrinkage Provider's activities of gas procurement and disposals to Users and, to a wider, public (Non-Network Code Party) audience.

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

Advantages:

1. Provides additional transparency of Transco's Shrinkage Provider activities in relation to the NTS SO incentives.
2. May better facilitate competition between those participants in the market who may seek to offer system balancing services to Transco.
3. The information will be widely available to all participants in the market in an equitable and timely manner.

Disadvantages:

1. Dependent on the liquidity of the gas market, the provision of this information (even at D+5) could place the Shrinkage Provider in a distressed commercial (buyer or seller) position.

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

All five responses received expressed support for the Modification Proposal.

British Gas Trading BGT
EDF Energy EDF
Powergen UK Plc POW
RWE Innogy INN
Shell Gas Direct LTD SGD

11.1 Provision of Ex-post Information

Four respondents (BGT, EDF, POW and SGD) considered that the publication of the proposed ex-post information may facilitate greater transparency in respect of providing Users with the opportunity to monitor Transco's performance in relation to its Licence obligations and NTS SO incentives.

BGT believed that release of such information would *"raise the profile of the activity of the shrinkage provider"*. BGT and EDF believed that the provision of the proposed information may allow both Transco and Users to contract more efficiently for shrinkage requirements.

SGD maintained the view expressed in its response to Modification Proposal 0618 – "Publication of Shrinkage Provider Gas Procurement and Disposal Information" that, *"The unique environment that the shrinkage provider operates in as a monopoly service provider should result in a higher level of information release",* than those operating within a competitive environment.

EDF considered that the provision of such information created a level playing field in respect of shrinkage information as some Users were privy to the shrinkage information release, providing them with a competitive advantage.

Transco Response

Transco agrees with the views expressed by respondents that the publication of the proposed ex post information may facilitate greater transparency in respect of Users being better able to monitor the activtities of the Shrinkage Provider and assess Transco's performance against its Licence obligations and NTS SO incentives.

Transco agrees with BGT and EDF that the release of this information might result in improved efficiency in the contractual arrangements for shrinkage requirements.

Transco disagrees with the views expressed by SGD. The activities of the Shrinkage Provider could be undertaken by a party other than Transco. The Shrinkage Provider undertakes the procurement and disposal of gas to meet its shrinkage requirements in the wider gas markets and is therefore no different to any other market participant in this context.

Transco also disagrees with the EDF comment that some Users were provided with a competitive edge *".. as they were privy to the shrinkage information release..."*. Transco publishes a wide range of shrinkage related information both within the Gas Day, for example, NTS and LDZ shrinkage factors and LDZ demand levels that are available to *all* Users of AT-Link. Transco also publishes extensive shrinkage related information after the Gas Day as part of the Network Code Operational Reporting (NCORM) suite which is publicly available to all users of Transco's Information Exchange website.

11.2 Provision of Ex-ante Information

BGT stated that it continues, *"to have sympathy with the view of Transco, as shrinkage provide, that ex ante publication could be prejudicial"*. It noted that although this was not an element of the Proposal it believed that publication of this information promptly after the event provided a level of transparency without compromising the Shrinkage Providers commercial exposure. EDF and SGD suggested that publication ex-ante information could be made available at an aggregate level as this should ensure that no particular trading accounts were compromised in respect of confidentiality.

SGD and EDF believe that the provision of ex-ante information would allow Users to better forecast their demand day ahead as, in respect of NDM portfolios, "*Shrinkage gas is a fundamental part of forecasting system demand*". SGD stated that it would "*welcome publication of information of the net position ex-ante as this feeds into the NDM forecast formula"*, it noted that this would allow Users to better predict NDM demand which may improve balancing performance.

EDF believed that the provision of ex-ante information may provide further benefits in that it may, *"help Shippers contract more efficiently with NGT as it would induce more competition for Shrinkage ahead of the day"*.

Transco Response

In its decision letter to reject Modification Proposal 0618, Ofgem cited and supported Transco's concerns that the provision of ex ante information could place the Shrinkage Provider in a distressed buying or selling position in the gas markets. Ofgem considered that *"Transco, as shrinkage provider, would compete with other players in the market for the procurement of gas*

when its shrinkage requirements are not fully covered on a gas day. In this respect, Transco's position in the market could be weakend by revealing its potential shortfall or excess of shrinkage gas ahead of the day".

Transco continues to hold the position that the publication of the ex ante information, as originally outlined in Modification Proposal 0618 could increase the costs of managing the Shrinkage Provider and subsequently have an adverse impact on the economic and efficient operation of the system.

Transco publishes a range of shrinkage-related information that may assist Users to better forecast their demand day ahead, for example, NTS and LDZ Shrinkage Factors, Weather Correction Factors (WCFs) and forecast LDZ demands. However, Transco disagrees with the SGD and EDF comments that the provision of the ex ante information (net imbalance) would afford Users with a better opportunity to forecast their NDM portfolios. Shrinkage gas quantities are calculated by utilising the forecast demands and then applying several parameters e.g. the appropriate shrinkage factors. This information does not contribute to either the calculation or apportionment of NDM nominations.

11.3 Shrinkage Trade Disposals

SGD considered that the ability for the *"shrinkage operator"* to make trade disposals was *"yet another example where the present incentive regime distorts the actions that the SO takes which are not consistent with those of its customers".*

Transco Response

The Shrinkage Provider arrangements are clearly defined in the Network Code and to that extent, it is different to other types of *"customers"* i.e. Users as defined by the Network Code. Additionally, Transco has Licence and Network Code obligations, and is encouraged through its NTS SO incentives, to ensure that the Shrinkage Provider role is undertaken in an efficient and economic manner.

11.4 Development costs

EDF found it *"surprising"* that NGT have estimated cost of £20,000 development costs given that NGT had indicated that most of the functionality was already available. EDF suggested that the information, *"would only necessitate an extra page on AT Link or be up loaded onto the Information Exchange website".*

Transco Response

Transco is supportive of the provision of timely and accurate information on a fair and equitable basis, thus improving transparency to all market participants. However, in all cases this must be assessed against the costs of providing the information. In this case, Transco's intention, should Ofgem direct it to implement this Proposal, is to make the information available to a wider, public audience and publish it on a Transco website rather than AT-Link.

The development costs of £20,000 would provide an automated, systems based solution as the primary source data is held on a number of offline systems rather than AT-Link. The systems based solution would provide the necessary processes and interfaces between the offline data sources and publication of information on the Transco website.

11.5 Timing of Information Release

EDF noted that it would appreciate Ofgem and Transco's view in respect of the timing of such information publication and indicated that it did not believe that a one off publication at D+5 would, *"provide shippers with sufficient time to analyse and respond to changing system demand level after the day"*.

Transco Response

With respect to the timing of publication, this Modification Proposal has been raised on the basis that publication is aligned to the Shrinkage Provider's internal operational and administrative activities that process and collate this type of information i.e. the information would be published daily, each business day following D+5.

The timing of publication was discussed and agreed at the NT&T Workstream during the development of this Modification Proposal on the basis that it met the Users' requirements without incurring excessive administration costs.

11.6 Protracted Timescale

SGD stated that it considered it *"disappointing that it has taken almost 18 months after Ofgem had accepted M579, allowing the shrinkage provider to make trade disposals, to progress the related information issues"*. SGD proposed that in future where information issues are raised in relation to a Modification Proposal any changes required in respect of such information changes are better aligned with the Proposal.

Transco Response

Transco notes SGD's concern relating to the protracted timescales and agrees that where possible, during the development of Proposals and Workstream Topics, information issues should be explored and developed to the same timescale.

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

No such requirement exists in respect of the Modification Proposal.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Implementation of this Modification Proposal is not required to satisfy these requirements.

14. Programme of works required as a consequence of implementing the ModificationProposal

The required system changes should this Modification Proposal be implemented have been specified by Transco with the systems delivery anticipated for 1st October 2004. The anticipated systems delivery date takes account of the dependency that it has on the technical upgrade of the Information Exchange website that will be implemented in September 2004.

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

- Draft Modification Report issued - 26th May 2004
- Consultation period ends - 17th June 2004
- Final Modification Report issued - 8th July 2004
- Ofgem decision expected - 31st August 2004
- Systems implementation - 1st October 2004
- Effective date for the implementation of the Modification Proposal - 1st October 2004

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal is implemented.

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 Gas & Electricity Markets Authority in accordance with this report.

19. Text

Draft Legal Text

SECTION N

Insert a new paragraph 4.6 as follows:

"4.6 Information Provision

4.6.1 For the purposes of this paragraph 4.6:

(a) **"relevant shrinkage disposals"** shall mean all gas disposed of by the Shrinkage Provider, which gas had previously been purchased by the Shrinkage Provider in respect of NTS shrinkage for the relevant Gas Flow Day;

(b) **"relevant shrinkage purchases"** shall mean all gas purchased by the Shrinkage Provider in respect of NTS shrinkage for the relevant Gas Flow Day;

(c) prices shall be quoted in pence per kWh and, to the extent that the Shrinkage Provider is reasonably able to do so, shall take into account any discounts or premiums applied or charged in respect of relevant shrinkage purchases or relevant shrinkage disposals, provided the amount of such discounts and premiums were known to the Shrinkage Provider at the time of the calculation of the relevant prices and were reasonably able to be applied to one or more relevant shrinkage purchases or relevant shrinkage disposals;

(d) where the Shrinkage Provider has entered into a transaction for an amount on each Gas Flow Day for a specific period it shall, for the purpose of calculating the number of transactions entered into, be deemed to be a separate transaction in respect of each and every Gas Flow Day to which it relates; and

(e) whilst all information published by the Shrinkage Provider will so far as reasonably practicable be reflective of the information in its possession at a time as close as reasonably practicable to the time of publication, it will not be reflective of information which comes into its possession subsequently (or of any subsequent relevant shrinkage purchases or relevant shrinkage disposals in respect of the relevant Gas Flow Day), will not bind Transco or the Shrinkage Provider and will be without prejudice to the provisions in this Section N and elsewhere in the Code whether to later adjustment, assessment, reconciliation or otherwise.

4.6.2 The Shrinkage Provider shall, no later than the end of the fifth Day following the relevant Gas Flow Day (or, if such Day is not a Business Day, the end of the first Business Day thereafter), publish the following information (where such information is available) in

relation to relevant shrinkage purchases and relevant shrinkage disposals made in respect of that Gas Flow Day:

(a) the net quantity of gas purchased (being the quantity derived as the aggregate quantity of gas purchased pursuant to relevant shrinkage purchases less the aggregate quantity of gas disposed of pursuant to relevant shrinkage disposals);

(b) the aggregate quantity of gas purchased pursuant to relevant shrinkage purchases;

(c) the aggregate quantity of gas disposed of pursuant to relevant shrinkage disposals;

(d) the aggregate number of transactions entered into in respect of relevant shrinkage purchases;

(e) the aggregate number of transactions entered into in respect of relevant shrinkage disposals;

(f) the weighted average price of relevant shrinkage purchases;

(g) the weighted average price of relevant shrinkage disposals;

(h) the minimum price paid under a transaction for a relevant shrinkage purchase;

(i) the maximum price paid under a transaction for a relevant shrinkage purchase;

(j) the minimum price received under a transaction for a relevant shrinkage disposal; and

(k) the maximum price received under a transaction for a relevant shrinkage disposal."

Signed for and on behalf of Transco.

Signature:

Richard Court
Commercial Frameworks Manager
NT & T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0692**, version **1.0** dated **08/07/2004**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") 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 Authority 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 paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.