

**Draft Modification Report**  
**Removal of NDM Forecast Deviation from Imbalance Calculations**  
**Modification Reference Number 0511**  
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

**1. The Modification Proposal**

It is proposed that the NDM Forecast Deviation is removed from energy imbalance cashout determination. The proposed change would set the Imbalance Tolerance Quantity to zero.

**2. Transco's Opinion**

Provisions in the Network Code relating to NDM Forecast Deviations reduce Users' exposure to SMP cashout prices arising from the difference between final NDM nominations and NDM allocations. Where the NDM Forecast Deviation might be considered to have contributed to a User's long or short allocated imbalances (i.e. where the Daily Imbalance and the NDM Forecast Deviation are either both positive or both negative), the User's Daily Imbalance, up to the ITQ, is cashed out at System Average Price (SAP) and the remaining imbalance, if any, is cashed out at System Marginal Prices (SMP<sub>sell</sub> or SMP<sub>buy</sub>, depending on the direction of the imbalance). The NDM Forecast Deviation therefore reduces Users' exposure to SMP.

It has been suggested that no element of a User's imbalance should be cashed out at SAP. For Users serving NDM Supply Points this change would increase each User's exposure to marginal priced cashout thereby further enhancing User's incentives to balance. Transco believes that this would improve the degree of cost targeting within the regime and could lead to more efficient operation of the balancing regime.

During workstream discussions, Users expressed concerns that they would not be able to forecast NDM demand as accurately as Transco because they do not have historical weather data. Transco recognises these concerns and will, in accordance with the Code provisions in Section C1.6.1 (b) (ii), continue to provide NDM demand forecasts to Users. It is a matter for individual Users as to whether they wish to develop their own forecasting systems to enable them to better manage the risks inherent in shipping to NDM Supply Points.

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

User incentives to balance would be enhanced thus potentially reducing the need for Transco to take balancing actions and allowing it to better fulfil its "residual system balancer" role more efficiently. Implementation of the Proposal will therefore better facilitate efficient and economic operation, as stated in Standard Condition 9 1(a). Furthermore, targeting costs to

out of balance Users could help secure more effective competition between shippers, as stated in Standard Condition 9 1(b).

**4. The implications for Transco of implementing the Modification Proposal , including  
a) implications for the operation of the System:**

Removal of NDM Forecast Deviation would increase User exposure to imbalance cashout prices and would therefore increase Users' incentive to balance. This should reduce the need for Transco to take balancing actions and hence lead to more efficient operation of the system.

**b) development and capital cost and operating cost implications:**

The development and capital costs are likely to be low. Based on current information Transco believes that the only system change required is a parametric change within the AT-Link system that would set the Imbalance Tolerance Quantity to zero.

Operating costs, including invoicing, are likely to be unaffected by this change.

**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:**

Transco would not seek to recover incremental costs of implementation of this proposal.

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

This proposal is not considered to have consequences in respect of 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**

No such consequences are anticipated.

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

Transco's AT-Link system would need to be set so that the Imbalance Tolerance Quantity is zero. This will effectively set the first Imbalance Tranche Quantity equal to zero on all days for all Users. The full imbalance, if any, will then be accounted for in the Second Imbalance Tranche. Thus no changes will be required in the billing system or in respect of charge items. Similarly, Transco considers that Users are unlikely to need to change functionality of their operational and financial computer systems.

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

Transco considers that the main implication for Users would be an increased exposure to marginal cashout prices. In addition, Transco consider that Users would need to decide whether to accept the risk, invest in better forecasting systems or seek to procure better risk management tools from other providers.

Transco would welcome representations setting out the implications for Users.

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

Transco believes that there would be no direct impact on the above parties. However, Transco would welcome representations setting out the implications for these 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**

No changes to contractual relationships are anticipated.

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

Advantages:

- Removing the NDM forecast deviation increases User exposure to marginal cashout prices. This should increase Users' incentives to balance. This should reduce the need for residual balancing actions and reduce residual balancing costs.
- Reduces opportunity for poor cost targeting via removal of SAP cashout.
- Encourages Users to develop more accurate forecasts of demand.
- Reduces the opportunity of "after the day" trading of imbalances to avoid full SMP exposure.
- May promote the development of new risk management tools.

Disadvantages:

- Demand change within day can be difficult to predict and is outside of a User's control. Exposing Users to marginal cashout prices for inaccuracies in their forecasting of these demand changes could disproportionately effect those Users with a high proportion of NDM demand within their supply portfolio.
- To compensate for the increased cashout exposure Users may wish to increase charges to NDM customers.

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

Representations are sought in respect of this Draft Report prior to finalising the Report.

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

Implementation is not required to enable Transco 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 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

Not applicable.

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

The system changes are currently believed to be minor and, therefore, a programme of works is not required.

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

The proposed time table is as follows:

Modification Panel decision ("to consultation")	17 Jan 2002
Draft Modification Report published	25 Jan 2002
Industry consultations close out	15 Feb 2002
Final Modification Report published	01 Mar 2002
Anticipated Ofgem decision	08 Mar 2002
System changes live (subject to above)	28 Jun 2002
Implementation date (subject to above)	01 Jul 2002

**16. Recommendation concerning the implementation of the Modification Proposal**

Transco recommends that this proposal is implemented.

**17. Text**

Section F: System Clearing, Balancing Changes And Neutrality.

Delete Section 2.1.3.

Delete Section 2.2.

Delete Section 2.4.1.a

Renumber Section 2.4.1.b as 2.4.1 and amend to read:-

2.4.1 The Daily Imbalance Charge shall be the Clearing Charge in respect of the System Clearing Contract under this Paragraph 2 and shall be calculated by multiplying the Daily Imbalance of the User as follows:-

- a) Where the Daily Imbalance is positive, the System Marginal Sell Price for the Gas Flow Day; and
- b) Where the Daily Imbalance is negative, the System Marginal Buy Price for the Gas Flow Day;

***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**  
**Head of Regulation NT&T**

Date: