

Draft Modification Report
Modification Reference Number 305

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:

Removal of the requirement to match input and output renominations for a trial period of one calendar month. Shippers would be able to renominate at will to inform Transco of changes to their supplies or demands. The Modification Panel decided that this Proposal should proceed to consultation in conjunction with Modification Proposal 0245/0245a.

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.

The industry is considering the introduction of an On-the-day Commodity Market (OCM) by October 1999. To facilitate this market it has been suggested that the current matching renominations rules need to be removed. Removing the matching requirement, thus allowing Shippers to change their imbalance position within day, could result in Shippers achieving a better balanced position thus reducing Transco's balancing role. It is also possible for the relaxation of the matching renomination rules to result in an increase in Transco balancing actions. As a prudent precautionary measure it has, therefore, been suggested that the industry operates the System under a revised renominations regime for one month prior to the introduction of the OCM and assesses the impacts fully. In this way any changes identified as desirable as a result of the trial can be made before the introduction of the OCM.

2. Transco's opinion:

Transco supports the removal of the matched renomination rule for a trial period subject to the provisions detailed in this draft modification report.

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

The purpose of the Modification Proposal is to verify whether the removal of the matched renomination rules would better achieve 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;
- 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 National Balancing Point (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;
- Facilitating the development of a liquid, within day, gas commodity market;
- Establishing whether a permanent change to the Network Code is required; and
- Demonstrating whether the relaxation of the matching renomination rules has meant that Transco has taken inefficient balancing action decisions during the trial and that System balancing costs have increased.

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 Day ahead 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 Day ahead nominations will result in the scheduling process being devalued.
- Assessment of balancing actions - Following NDM updates, Shippers are currently allowed one hour to respond via renominations. In a regime where Shippers are free to renominate at any time Shippers may elect to delay their response, which will impact on the assessment of any balancing actions required. This could result in unnecessary balancing actions.

Therefore, if information degrades, Transco's operational System balancing role is made more difficult. If there is a risk to System security, Transco would expect to suspend the trial.

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

No development or capital costs are envisaged as a result of this Proposal.

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:**

Transco will remain revenue neutral during the trial and it is not considered that this Proposal will effect 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:**

There will not be a systems impact as a result of this Proposal as 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 during the gas day may result in an increase in the number and size of national supply/demand balancing actions by Transco, un-targetted 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 affect 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 of any impact of the Modification Proposal on the legislative or regulatory obligations of Transco other than, in Transco's opinion, safety requirements provide that the trial must be of a finite duration followed by full evaluation so that the risks to System security can be properly evaluated.

It should be borne in mind that there could be an impact on certain default allocation processes within some contracts.

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

Parameters of a successful trial.

- Initial nominations and renominations continue to be received and prove to be more representative of actual flow patterns.
- Volume of Over-The-Counter (OTC) trades at the NBP increases.
- Number and size of flexibility / balancing actions do not increase significantly.
- Comparison of DFN, OPN, Shipper nominations and actual flows show improved correlation.
- Total System balancing costs reduce.

- Risk assessment confirms no degradation in System security

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 is not required by, nor does it affect the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence.

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

Information to be collected for analysis.

Information on Shipper performance and the impact on the Transco System will be provided to Ofgas and the BC99 working groups after the trial to allow analysis and confirmation of any System improvements prior to any reintroduction of the proposal.

Comparisons with data from previous periods will be made.

It is Transco's intention to use the data collected above to complete a 'shadow' assessment of "Phased Scheduling". Phased scheduling would calculate the difference between the prevailing Shipper nominations at various times during the Gas Day and their actual allocations at the end of the Gas Day. It is thought that the introduction of charges based on the above methodology would provide a further incentive for Shippers to procure and provide their best possible supply / demand forecasts to Transco.

Monitoring of Shipper nominations under supply contracts to producers and AT Link nominations to Transco could be considered. This could be done by an "independent third party/ombudsman". Obligations could be introduced for the duration of the non-matching trial. Differences between supply contracts will affect Shippers' nomination behaviour / rights.

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

In accordance with existing Network Code modifications rules version 2 , the timetable required to allow adequate time for representations, report compilation and Ofgas determination determines the earliest date for implementation as 24th February 1999.

16. Recommendation concerning the implementation of the Modification Proposal:

It is Transco's opinion that the trial should be conducted during periods of moderate gas demands for the following reasons:

- Avoids placing further complication and change on the industry during the months of likely peak demand,
- More commercial scope for Users and therefore more realistic observations will be possible,
- System operation is less critical and,
- Other commercial instruments such as interruption are less likely to be in use, hence increasing the clarity of the trial results.

Therefore, Transco recommends that the trial referred to in the Modification Proposal should commence no earlier than Monday 15th March 1999. However, Transco also believes that it should reserve the ability to postpone the start of the trial where it believes proceeding would jeopardise System security.

17. Legal Text :

It is proposed to insert the following text in the Transition Document, part II, paragraph 8.:

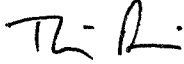
8.1A Section C: Nomination

- 8.1A.1 C5 .1 Subject to paragraph 2, in relation to each Gas Flow Day in the period of 30 Days commencing [], the requirement in Section C5.1.3 shall not apply, and accordingly the further requirements of Sections C5.1.6, 5.4 and 5.5.2 shall not apply; and any references elsewhere in the Code to those Sections shall be construed accordingly.
- 5 .2 If at any time in the period referred to in paragraph 1 Transco determines that the disapplication of Section C5.1.3 (and the other Sections referred to in paragraph 1) is prejudicing Transco's ability to maintain an Operational Balance, Transco may, by notice to all Users, suspend the further application of paragraph 1 with effect from the Gas Flow Day following the Day on which such notice was given.

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:

