

NETWORK CODE MODIFICATION PROPOSAL**TITLE: REMOVAL OF REQUIREMENT TO MATCH INPUT AND OUTPUT
RENOMINATIONS FOR A TRIAL PERIOD****DATE:** 8 December 1998**PROPOSED IMPLEMENTATION DATE:** as soon as possible**URGENCY:** Non-Urgent**JUSTIFICATION:**

The current Network Code renomination rules do not facilitate the provision of accurate within day physical information on AT Link by shippers.

The successful introduction of a within day liquid market based at the NBP will be facilitated with the removal of the matching renomination principle.

BC99 discussions have indicated that there is a need to trial the removal of the requirement to match input and output nominations prior to the introduction of a within day market in October 1999. In parallel with the trial a complete analysis of Transco and shipper behaviour would enable identification of benefits/disbenefits and the introduction of further restrictions/incentives to ensure that there is no inappropriate activity.

The trial and subsequent analysis will help establish whether a permanent change to the Network Code is required. However the trial may show that additional changes may need to be made to the regime to ensure that there is no detriment to Transco's ability to balance the system.

The rationale for including a requirement to match input and output renominations within the Network Code was that all shippers would achieve portfolio balance at all times during the gas day. This was based on the assumption that shippers source the vast majority of their portfolio gas at the beach and trade out their imbalances at the beach.

This situation has changed to the extent that within day activity is now focused at the NBP. Shippers buying and selling gas at the NBP within day may not adjust their physical positions in relation to each specific trade. Some shippers may wish to trade gas as a commodity in its own right. This behaviour, although legitimate, cannot be reflected through the matching renomination rules even though it is fundamental to the development of a liquid within day market.

A shipper should be able to reflect on AT Link any corrective action taken within day as a result of changes to demand or supply conditions. Shippers may experience time delays in terms of their awareness of changes in their supply and demand position within day and thus need to be able to access within day flexibility to manage the risks of being out of balance.

NATURE AND PURPOSE OF PROPOSAL

To trial the removal of the matching renominations rule for one calendar month.

All matching input and output renomination restrictions will be removed for one calendar month.

Shippers would be able to renominate at will to inform Transco if, for example, plant trips, demand alters or there is a supply failure.

This modification proposal better achieves the "relevant objectives", namely the efficient and economic operation of the pipeline system and the securing of effective competition between relevant shippers and suppliers, by removing the requirement to match input and output renominations for a trial period of one calendar month.

It will:

- facilitate the provision of real-time information from shippers to Transco via AT Link renominations, by permitting shippers to make non-matching renominations within day;
- align DFNs more closely with AT Link Nominations;
- enhance 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;
- improve individual shipper risk management and reduce the associated costs of individual shipper balancing by enhancing the ability to trade at the NBP;
- reduce the risk of incurring unnecessary scheduling charges due to the inability to renominate on the basis of changes in portfolio position within day;
- facilitate the development of a within day, liquid market;
- establish whether a permanent change to the Network Code is required; and
- demonstrate whether the relaxation of the matching renomination rules has meant that Transco has taken inefficient balancing action decisions and that system balancing costs have increased.

(There will not be a systems impact if the matching requirement is removed as this requirement is manually checked by Transco's Commercial Operations team.)

CONSEQUENCES OF NOT MAKING THIS CHANGE

The achievement of the "relevant objectives" will be frustrated:

- Shippers will continue to be unable to access effectively the within day NBP market to trade out their physical imbalances within day. This frustrates each individual shipper's

ability to achieve portfolio balance and increases the reliance upon Transco to balance the system.

- Retaining the matching renomination principle will limit the growth of the within day market and impede its liquidity.
- Shippers will continue to be unable to provide Transco with real-time information regarding their true portfolio balance position on AT Link.
- Shippers will incur unfair scheduling charges.
- There will be less evidence to ascertain whether the matching renominations principle should be permanently removed from the Network Code.

AREA OF NETWORK CODE CONCERNED

Transition Document: Part II Section C

Remove application of Principal Document Section C Paragraph 5.4 for one calendar month; thereafter revert to requirements of this Paragraph 5.4.

FACTORS TO BE TAKEN INTO CONSIDERATION WHEN MONITORING THE SUCCESS OR OTHERWISE OF THE TRIAL

The trial and the associated analysis of Transco and shipper behaviour is intended to demonstrate whether the permanent relaxation of the matching renominations rules would better achieve the relevant objectives. Within the BC99 discussions, concerns have been raised regarding the likelihood of an increase in the number of flexibility mechanism actions taken by Transco during the trial and a corresponding increase in neutrality costs. In addition, Transco has a number of operational concerns regarding the timing of the trial.

There has been support for the development of provisions that could be put in place to revert to the current matching rules if certain criteria are met. However, it has been extremely difficult to determine what such criteria should be and what the comparators should be.

Respondents are invited to identify the "measures" that could be used to judge whether or not removing the matching renominations principle is of benefit and facilitates the achievement of the "relevant objectives".

Areas that are more difficult to monitor

Regardless of whether or not the matching renominations rule is retained, there are other factors that have a significant influence on system balancing action, for example, supply/demand conditions and the weather. In addition, system balancing actions are subject to decisions made under Transco's Operational Guidelines.

For these reasons the following parameters in isolation are unlikely to be an appropriate measure of the trial's success or a trigger to stop the trial:

- ♦ a percentage change in neutrality

How could analysis be undertaken as to the difference between "normal" neutrality costs and neutrality costs incurred as a result of the implementation of this modification? There would appear to be limited value in comparing prospective costs with previous years' neutrality costs, given these variables.

- ♦ a fixed sum (£) of material costs.

How do we determine what is material? What is "normal" given that we have experienced two mild winters?

- ♦ the number/size of flexibility mechanism balancing actions taken by Transco.

What is "normal" given that we have experienced two mild winters?

- ♦ the number of "dual effect" balancing actions.

Areas that could be easily monitored

The main justification in removing the matching renominations principle is to improve the real-time information posted by shippers on AT Link and to facilitate a more liquid within day market. Any change in these two key parameters can therefore be easily identified:

- ♦ If the modification has the desired effect there should be an increase in the number of within day NBP trades.
- ♦ There should be greater volumes of gas trading within day.
- ♦ There should also be closer alignment of DFNs, AT Link nominations and actual flows (as allocated), leading to a fall in input and output scheduling charges. Offtake Profile Notices can also be compared with output nominations.

Other possibilities

There could be a mechanism whereby shipper nominations under supply contracts to producers and AT Link nominations to Transco could be monitored. An obligation to provide the information to Ofgas in a spreadsheet format could be introduced for the duration of non-matching trial.

Transco could undertake analysis for a month prior to the trial which perhaps would be a more accurate indication as to whether or not the trial has been a success.

ORGANISATION:

PROPOSER:

PROPOSER'S REPRESENTATIVE:

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