

Final Modification Report

Modification Reference Number 0313

This 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:

The following Proposal is put forward following discussions and feedback from the BC99 / RGTA and Modification 0313 processes. This report includes the changes detailed in the legal lock-in sessions at Stratford on 13th, 14th and 15th July and at Tottenham Court Road on 22nd July. The key elements of the proposal are:

- i. Introduction of an On-The-Day Commodity Market (OCM) to replace the Flexibility Mechanism, formalising the role and interactions with an Independent Market Operator, facilitating Shipper to Shipper trading and enabling Transco to source flexibility of delivery / offtake for residual System balancing purposes.
- ii. Removal of the matched renomination rule on a permanent basis in conjunction with, and subject to, appropriate revisions to Transco's Safety case.
- iii. The introduction of incentives on Transco in its role as residual System balancer, based upon the parameters outlined in the Ofgas document "The New Gas Trading Arrangements" issued May 1999. Key parameters for each of the Buy and Sell incentives are daily caps and collars of £2k and £15k respectively with the 0, 5, 50% parameters to determine inferior and superior performance ranges.
- iv. This report advocates that the annual cap and collar is implemented via a monthly cap and collar.
- v. System Average Price (SAP) for imbalance cashout within tolerance to be determined for all trades in the OCM (except those related to Local Transportation Deficits). SMP sell and SMP buy to be determined based only on Transco's trades in the OCM (except those related to Local Transportation Deficits).
- vi. Narrowing tolerances used to calculate a Shipper's Imbalance Tolerance Quantity (ITQ) by 25% on introduction of the OCM. Absolute Tolerance Quantity (ATQ), Cumulative Imbalance Tolerance Quantity (CITQ) and Forecast Deviation to be retained. (**Note:** provision of ATQ and CITQ tolerances is due to expire 29th February 2000. This Modification Proposal

does not affect this provision)).

- vii. Introduction of Physical Renomination Incentives (PRIs) to encourage Shippers to enter renominations into ATLink following "Physical" trades within 60 minutes of Transco receiving trade confirmation from the Independent Market Operator.
- viii. Through associated discussion and consultation on the Operational guidelines it is considered that, to enable it to respond to the incentive, Transco should be provided with discretion over timing and volume of balancing actions, the OCM trade type to be used for balancing purposes, the provision of System information and the Operational Guidelines.
- ix. Revisions to Transco's PGT Safety Case submission to the Health and Safety Executive, developed in light of risk assessments.
- x. Revised invoicing procedures to support the above.

2. **Transco's Opinion:**

Following the RGTA meetings up to the end of May 1999 the high level consensus view within the group on Energy and On-the-day Commodity Market was as follows:

The incentive for Shippers to balance should be increased while relaxation of the nomination regime should be made to facilitate trading on the On-the-day Commodity Market (OCM). This would lead to a reduced role for Transco as residual balancer, greater Shipper control of their own imbalances through OCM trading with the aspiration that this would reduce neutrality costs. This could be coupled with Transco incentives to further reduce Shippers' costs if the efficiency of the balancing action process, in respect of neutrality costs, could be improved.

Transco is committed to the introduction of the OCM and the associated changes by 1st October 1999. Transco also considers that this market will benefit from being screen based and financially cleared.

Transco believes that the retention of marginal price cashout is essential to ensure delivery of System balancing trades and to encourage Shippers to balance their portfolio thus leaving Transco with a residual balancing role. With the current level of within day information this provides some crude cost targeting, although it is recognised that within day changes to Shipper imbalance positions which cause costs to the System may give rise to, what could be considered to be, inappropriate cost allocation.

Transco recognises that a majority of Shippers want Transco to face a financial incentive in respect of its balancing performance. Transco recognises that the incentive scheme proposed by PowerGen may have significant merits in respect of avoiding or minimising unnecessary actions and that such a scheme will give the

community greater confidence that Transco is being mindful of the commercial consequences of its actions.

Such a scheme has been proposed based upon the inclusion of the parameters, advocated in the Ofgas May 1999 document "The New Gas Trading Arrangements", in the Network Code which Transco believes should provide for an appropriate alignment of Transco benefits and Shipper benefits (reduced neutrality) arising from the implementation of this Proposal.

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

The changes to the Energy Balancing regime and the adoption of a liquid OCM will better facilitate the following relevant objectives:

- Condition 7 a) - "*the efficient and economic operation by the licensee of its pipe-line system*" and
- Condition 7 c) "*the securing of effective competition between relevant Shippers and between relevant suppliers*".

The key features of the proposals which will help achieve these relevant objectives are as follows:

- i. Enables Shippers to provide better and more timely information to Transco via ATLink renominations, by permitting Shippers to make non-matching renominations within day, thereby facilitating more efficient balancing actions.
- ii. Reduces Shippers' risk of incurring unnecessary scheduling charges due to the inability to renominate on the basis of changes in portfolio position within day;
- iii. Facilitates better alignment of Daily Flow Notifications (DFNs) and ATLink Nominations by removing the need to enter matching renominations;
- iv. Encouraging Transco to make more economically efficient balancing decisions that may lead to reduced balancing costs;
- v. Introduces a within day, gas commodity market which can be used both by Shippers and Transco, potentially reducing System and portfolio balancing costs and providing an additional risk management capability for Shippers.
- vi. Retains and enhances Shipper balancing incentives thereby reducing Transco's role as residual System balancer with its attendant consequences for Balancing Neutrality costs.

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

4.1 **Implications for the operation of the System:**

The adoption of an On the Day Commodity Market changes the way in which Shippers can trade with each other and the way in which Transco obtains flexibility gas. Transco will participate in the OCM in a similar fashion to current operations within the Flexibility Mechanism although the introduction of balancing incentives encourages Transco to take more commercially based decisions.

Dispensing permanently with the matching renominations rule may have beneficial effects on the information provided to Transco, and whilst reducing Shipper balancing tolerances reduces the number of balancing actions taken by Transco. However, more freedom for Shippers to change their balance position within day, and less certainty of Shippers' response to NDM triggers, may lead to increased operational uncertainty, increased numbers of balancing actions, reduced efficiency and changes consequent in the underlying level of balancing neutrality costs.

The operational processes and the computer systems used by Transco will change substantially to interface with the Market Operator's systems and to implement other aspects of the RGTA proposals.

4.2 **Development, capital cost and operating cost implications:**

Development costs have been identified in modifying UKLink in order to implement the revised Network Code Business Rules and to interface with the OCM and the Market Operator's systems.

Operationally, it is expected that Network Code parties participating in the OCM, including Transco, will be required to pay the relevant OCM subscription and transaction charges. It is envisaged, however, that the additional costs for Users may be recovered through competitive pricing in a more efficient and transparent market.

Increased operating costs have been identified in monitoring physical flows following the acceptance of NBP Physical trades. These additional costs could be incurred as a result of the gas being allowed to be nominated to flow at any single or multiple location(s) whereas at present an automatic renomination is made at a single location. However, these incremental costs are not thought to be material.

There are also possible additional system and operating costs in capturing data and monitoring the timing of various activities, and in calculating incentives and compensation payments.

4.3 **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 will absorb all the costs associated with amendments to its systems to support the RGTA changes. Initial Market Operator interface set up costs for the OCM, together with the aggregate fixed element of joining fees are projected to be in the region of £550,000 dependent on the number of market participants. It is considered that these costs should be borne by all parties using, and benefiting from, the new market.

The recovery of these costs, which Transco will bear in the first instance, could be addressed via the energy balancing incentive mechanism with an adjustment made to enhance Transco's position. It is proposed that these costs are recovered over a twenty four month period starting on the 1st October 1999. Such a proposal is included in the legal drafting associated with this report which proposes a £750 per Day incentive scheme uplift.

OCM transaction charges attributable to System balancing actions taken by Transco will be operational expenditure.

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

The recommended changes to the regime are not anticipated to have price regulation consequences.

4.5 **The consequence of implementing the recommendations on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal.**

Any proposed Energy Balancing incentives on Transco will increase the level of contractual risk to which Transco is exposed. If Shippers perceive Transco to be gaining on any incentive at their expense then there is a risk to information flows and a further risk of increased balancing costs.

4.6 **The development implications and other implications for computer systems of Transco and related computer systems of Users:**

The current Flexibility Mechanism will be removed and replaced by a new screen based trading system to which subscribing parties will need access (the Flexibility Mechanism Rules will be retained as a contingency measure for a limited period). The new trading system will be required to interface with existing systems. As such computer systems both within Transco and other Trading System subscribers will need to be adapted / upgraded to introduce this modification. Transco has investigated the effect of these changes on Transco's systems and in summary has identified the following system changes:

- a. Establishment of an interface with the Market Operator.
- b. Automation of NBP trade renominations on receipt of trade details from the Market Operator.
- c. New renomination functionality to allow Users to enter physical flow renominations against NBP Locational and NBP Physical bid identifiers.
- d. Changes to the Energy Balancing Invoice (EBI) and consequent effects on Balancing Neutrality i.e., Physical Renomination Incentives (PRI) and replacement of flexibility gas sales / purchases with OCM transactions.
- e. Systematisation of the calculation and invoicing of any Transco Balancing Incentives.
- f. Systematisation of the new cashout regime.
- g. Reduction of Shipper Balancing tolerances.
- h. Invoice production changes requiring new invoices and new charge types.

The computer systems of many Users have been built to interface directly with Transco's UKLink systems for the purpose of making flexibility bids and for monitoring price activity of participants to the flexibility mechanism. New or revised systems will need to be adopted by Users to extract the equivalent information from the OCM. Users have also adopted automatic means of calculating and checking charges and credits invoiced by Transco for flexibility gas and other energy balancing invoicing items. In future, the equivalent charges and credit invoices will be generated from two sources and new and revised charge items will be billed by Transco. This will necessitate the development of new or revised systems for most / all Users.

Other changes to the structure of existing invoices e.g. PRIs will result in changes to Shippers' systems. Detail of structural changes are included in Appendix 2.

4.7 The implications of implementing the recommendations for Users:

Users will be able to access and dispose of gas within day via the OCM, thereby providing a further tool to help them both to achieve a within day balance of their portfolio and to deliver benefits of an additional trading mechanism. The market will be financially cleared thereby reducing the risk of default.

Users will have an alternative to Over The Counter trades in order to buy or sell gas at the National Balancing Point (NBP). Within the OCM subscribers will be able to trade with Transco to provide gas for System balancing purposes. The provision of a market to satisfy the requirements of both Transco and Shippers may lead to a higher level of liquidity than that provided by the present mechanisms. This should ultimately benefit all Users.

Shippers will continue to benefit from the relaxation to the renomination rules by the permanent removal of matching requirements, thereby facilitating greater trading opportunities. This will further facilitate the accurate and timely provision of nominations information to Transco. This change may lead to increased Balancing Neutrality charges should greater Shipper freedom to change their imbalance position give rise to adverse changes in imbalance positions and balancing requirements.

The reduction in balancing tolerances will increase the incentives on Users to balance and will possibly increase the value of within day information on System inputs and off-takes supplied to Users.

Costs associated with procuring contingency arrangements, put in place to mitigate the risks associated with the move to the new trading arrangements, will be recovered via Balancing Neutrality.

The System balancing incentives on Transco to take actions close to the Market Average Price is intended to reduce costs of System balancing for Shippers.

4.8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators, suppliers, producers and, any Non-Network Code Party:

Producers and Terminal Operators may see an increased number of nominations / renominations as a result of OCM trades and removal of the matching renominations rule.

Storage Operators and Connected System Operators will receive reduced tolerances in line with other Users.

If efficiency benefits are achieved then the benefits of these may be passed through to consumers.

4.9 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:

The balancing incentive will be defined within the Network Code.

This will change Transco's relationship with each User to the extent that Transco is trading in a market with Users of its System. The structure of the incentive will create commercial opportunities for Transco and it is important that the framework under which Transco makes balancing action decisions is considered consistent with Transco's obligations to operating the System in an economic and efficient manner as required by its PGT licence.

Ofgem is currently conducting discussions with the Financial Services Authority, and HM Treasury about the way in which the OCM should be regulated in the

short, medium and long term. The present position is that an initial exemption to full FSA regulation will be given on the understanding that Ofgem will itself regulate the market through the existing licencing regime with participants and through a designation of the Market Operator. In the longer term, full regulation under the Financial Services Act, which is in the course of preparation, may be introduced.

The Market Operator will be a Restricted User under the terms of the Network Code (Section V.2.5) with all its attendant obligations.

Revisions will be required to the Transco PGT Safety Case which will be submitted for the acceptance of the Health and Safety Executive. These will need to be ratified by the Health and Safety Executive prior to introduction of the OCM.

Under the Gas Safety (Management) Regulations (1996) a Duty of Cooperation is specified for parties that will be expected to cooperate with Transco in its role as the National Emergency Coordinator. This list of parties will be extended to include the Market Operator.

4.10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal:

Advantages

- i. Allows market participants (Shippers and Transco) access to a potentially liquid gas trading market for purchase and sale of gas within day.
- ii. Facilitates accurate within day information through nominations.
- iii. Incentivises Shippers to balance their own daily inputs and outputs so reducing Transco's role as residual System balancer.
- iv. Encourages Transco to take economically efficient balancing actions.

Disadvantages

- i. May lead to behavioural changes in both Transco and Shippers which could be of detriment to the regime.
- ii. Tighter tolerances may lead to increased Shipper risk.
- iii. Cost and complexity of changes may outweigh or hinder the anticipated benefits of the OCM.
- iv. Transco's response to incentives may not be perfectly aligned with minimisation of balancing costs.

4.11 Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in this Report):

4.11.1 Shipper responses caveated.

Fourteen of the responses received by Transco included caveats referring

to a number of outstanding issues, including but not limited to:

- OCM change procedures.
- Market Operator Subscription Agreement.
- Market failure liability issues.
- Financial regulation of the OCM.
- Market Operator Appointment contract.
- Clarification of contingency arrangements.
- Resolution of Annex D-1 legal drafting issues.
- Licence amendments.
- Operational Guidelines changes.

Until these issues are resolved those shippers caveating their representations wish to, in the words of Total Gas Marketing Ltd, “reserve the right to modify our position in the light of on going developments” and submit additional representations. Yorkshire Energy requests that the Modifications Proposals 0313 and 0314 “are NOT signed off by Ofgem until legal drafting and other necessary documentation (Licence, O Gs, EnMO contract) are properly reviewed.” and that “agreement must be reached by the 27th August 1999”

Transco’s response:

Transco recognise that there are still significant issues that will need to be finalised before this Modification Proposal can be implemented. For this reason Transco considers that the approval of this Modification Proposal will need to be conditional upon a number of key elements.

Transco recommends that this Proposal is approved on such a conditional basis which will then enable the appropriate focus to be applied on the outstanding issues.

4.11.2 Timetable for implementation.

Nine respondents expressed reservations as to the ability of the industry to implement all of the proposed changes within RGTA with Eastern Power and Energy Trading, Total Gas Marketing Limited, Aquila Energy and Scottish and Southern Energy calling for the implementation to be deferred to allow further industry debate to resolve the outstanding issues referred to in 4.11.1 above.

Issues	Number in favour	Number against
Representations Caveated	14	3
1st October deadline is unachievable	11	6
Transco incentive parameters to be included within Network Code	10	1
Transco to be incentivised on Energy Balancing from 1st October 1999	7	6
Transco incentives to be subject to a Cap / Collar	7	2
Prefer PowerGen Incentive Model	10	
Transco incentive to be subject to a monthly Cap/Collar	2	8
Use of Title Contract by Transco	1	4
Transco to be held to the use of OCM only for an indefinite period	13	
Transco to be given additional Operational Guidelines discretion	7	3
Support for audit of Use of OM Gas and Top Up by Transco	6	
Market Operator to be subject to greater regulation	4	1
Support the provisions of Annex D -1 being retained in the Network Code	6	4
Support current Contingency Arrangements	1	2
Support Reduction of Shipper Tolerances from 1st October 1999	10	2
Support Three Price Cashout based on SAP and SMPs from 1st October 1999	12	1
Support permanent removal of Matched Renominations rules	7	1
Support the provision of PRICs	3	2
Support the inclusion of a future Energy Balancing solution to over supply problems at terminals	4	
Support Transco discretion on within day Information provision	3	5
Support Provision of System Prices within Day	2	

British Gas Trading expressed concern "if the implementation date is delayed because other Shippers have failed to be ready in time".

Transco's response:

Transco remains committed to implementation of the RGTA proposals on 1st October 1999.

Transco shares the respondents concerns over the outstanding issues referred to above but believes that these issues can be resolved in time to achieve the 1st October deadline.

4.11.3 Energy Balancing Incentives.

Mobil Gas Marketing Ltd, BP Gas, Shell Gas Direct Ltd, Total Gas Marketing Ltd, Scottish and Southern Energy Plc, Aquilla Energy, PowerGen and British Gas Trading Ltd called for Transco to be incentivised on its role as residual System balancer with the majority of these responses supporting the PowerGen framework. There was also support for the incentive parameters to be incorporated within the Network Code. Elf "are sceptical of the value of introducing incentives in this area". National Power Plc, Scottish Power, Eastern Power and Energy Trading oppose Energy Balancing incentives at this time. BG Storage "share Transco's reservations about the balancing incentive scheme; particularly their (Transco) concern about competing with their (Transco) customers".

The majority of responses supporting incentives also supported the inclusion of a Cap and Collar to the incentive but did not support the breakdown of this Cap and Collar to a monthly figure.

Transco's response:

Transco accepts that there may be merit in implementing an energy balancing incentive. However, Transco's risk / reward should be limited and Transco supports implementation of the PowerGen model as a suitable incentive in conjunction with a cap / collar in line with the +/- £2m Cap and Collar put forward in the Ofgas document "The New Gas Trading Arrangements" issued May 1999. Transco also agrees that the parameters of the incentive could be incorporated within Network Code and the legal drafting supporting this modification incorporates this provision although some amendments to the PGT Licence are required to accommodate the up-side of a parameter in any event.

The breakdown of the annual Cap and Collar into monthly portions enables Transco to close-out and complete the billing processes for the incentive on a monthly basis and also ensures that the incentive will provide a commercial influence on Transco in each and every month of

the year. Under a single annual Cap/Collar it is possible that Transco will reach either Cap or Collar early in the year, and thus for the remainder of the period the incentive would no longer be active.

Transco notes that Shippers do not wish to see monthly caps / collars but believes that such an approach has considerable merits from an administration perspective and because it generates desirable longevity in the effectiveness of the incentive scheme.

4.11.4 Shipper tolerance reduction

Mobil Gas Marketing (UK) Limited, BP Gas, Shell Gas Direct, Total Gas Marketing, Aquilla Energy, PowerGen, Scottish Power, British Gas Trading, Eastern Power and Energy Trading, and BG Storage are all in favour of reducing Shipper tolerances. Scottish and Southern Energy and National Power are against any reduction.

Transco's response:

Transco considers that reducing Shipper tolerances by 25% is in line with the objectives of the RGTA process. Reducing tolerances helps to achieve better cost targeting and reduces cross subsidies. It also helps reduce Transco's balancing role as residual balancer.

4.11.5 Regulation of OCM and Market Operator

A number of respondents have noted their concerns that ENMO is not a Recognised Clearing House for the purpose of the Financial Services Act 1986. There was also concern to protect the community from anti-competitive behaviour either from the MO (as a monopoly supplier) or from other dominant Shippers.

Transco's Response:

In consultation with the Financial Services Authority (FSA), Ofgem have agreed to take on a regulatory role whilst the scope is restricted to provision of an on the day commodity market or until such time as the Market Operator comes within the auspices of FSA regulation. Further to an amendment to Transco's PGT Licence every Market Operator will have to be designated as being "fit and proper" by Ofgem before Transco can appoint them for the purposes of Network Code. Designation will seek to address a series of issues including anti-competitive behaviour.

Ofgem have stated their intention that the terms of the designation will take into account Shippers' concerns about discrimination. Paragraphs 2.1 to 2.3 of Annex D-1 are intended to reference the discrimination issue within the Network Code unless such issues are made a requirement of designation.

Transco's view is that these provisions within Annex D-1 should only be referenced if they are not referred to in the designation criteria, the Market Rules or both. Where reliance is placed on Market Rules, Transco would require a rule change procedure which gives all participants the ongoing protection that they need and this is currently provided in Section D 2 of the legal drafting and Annex D-1. Until the concerns of the community are satisfactorily addressed the above legal drafting should be retained.

4.11.6 Revision of the Operating Guidelines (O Gs).

Alliance Gas, Mobil Gas Marketing (UK) Limited, Scottish Power, BP Gas, Scottish and Southern Gas and PowerGen support further discretion in the Operational Guidelines document. Alliance Gas contends that its support for further discretion is subject to a number of "issues being agreed by the industry in a non ambiguous manner in advance of implementation". These issues being "the level of information provided before, during and after the day, the nature and extent of the audit process and the level of accountability" by Transco. Both Elf and Dynegy also called for such auditing. Amerada Hess Gas Ltd, Shell Gas Direct and National Power Plc do not support further relaxation as this may lead to Transco deferring balancing actions and carrying over an imbalance position into the next Gas Day thereby leading to a reduction in cost targeting.

Amerada Hess Gas Ltd, Eastern Power and Energy Trading Ltd, Alliance Gas, Mobile Gas Marketing Ltd, BP Gas and Dynegy all expressed concern over the role and use of Operating Margins Gas and the means by which Top Up gas will be accessed by Transco. Eastern Power and Energy Trading Ltd called for an action plan to be brought forward to remove Top Up provisions.

Transco's Response:

Transco has consistently argued that in an incentivised regime it is essential that it has an increased level of discretion to enable it to respond to the incentive. Transco welcomes the support of the majority of Shippers to this philosophy.

Transco recognises the concerns raised by some Shippers in respect of the use of Operating Margins Gas. It is not intended that these gas reserves will be used "commercially" by Transco in response to the incentive but that these will be used to address "operational" issues as they do currently. Transco also recognises that the industry will require provision of both within-day and after-the-day information and that Transco's actions will need to continue to be the subject of audit. Transco will be producing revised O Gs which will be the subject of the normal consultation process starting later in August. In parallel with this,

Transco intends to address the information provision issue.

4.11.7 Information Provision

Eastern Power and Energy Trading, BP Gas, Alliance Gas, PowerGen and Scottish and Southern Energy Plc, supported a review of the information provided by Transco within Day as part of the Operational Guidelines review. Aquilla Energy Ltd also supported "Ofgas' initiative to place monetary incentives on companies to provide the information" to Transco and for Transco to "request that the Terminal Operator's exemption from a PGT licence is revoked" to allow contractualisation of information flows between Transco and Terminal Operators. Dynegy has called for all information to be made available to ensure "equitable treatment of all gas traders" and remove any "asymmetry in information access". Amerada Hess Gas Ltd suggested that removal of linepack information will result in less competitive bidding within the market.

Transco's Response:

Transco considers that it should have discretion as to whether or not to release information which may affect its ability to achieve a competitive market price for System balancing actions. To compel Transco to provide detailed information on System performance and linepack status within day might adversely affect the market and Transco's ability to source gas at efficient prices.

However, Transco believes that the provision of timely information about the state of the System via the AT-Link "NB92" screen has provided valuable information to the industry and that the majority of System Users want this to continue. Transco, therefore, anticipates providing similar levels of information provision to the community with the exception of the target linepack figure. Such information would hence continue to provide guidance about the general state of the System but without revealing precisely Transco's requirements for gas to balance the System.

Transco also concurs with Aquilla Energy Ltd in that timely and accurate information provision by Shippers to Transco, as to their current and project physical system inputs and outputs, would be to everyones advantage as this would enable Transco to determine with greater certainty the need, or otherwise, to take a System balancing action. This in turn would reduce the number of dual and opposite balancing actions thus reducing Balancing Neutrality costs.

Removal of the Terminal Operators exemption from having a Shipper's Licence is a matter for Ofgem. Historically the relationship between Transco and the terminal Operators via the Local Operating procedures has been a good one and therefore Transco sees no reason for change at

this time.

Whilst Transco may be in possession of information on the day not available to the community at large it has given assurances on the level of information which it will continue to share. This should alleviate Shippers' concerns.

4.11.8 Annex D-1

Mobil Gas Marketing (UK) Ltd, Shell Gas Direct, Elf Gas and Power Limited, Total Gas Marketing, Dynegy and Amerada Hess Gas Ltd expressed support for retaining the provisions of Annex D-1 legal drafting within the Network Code to ensure that OCM Market Rules change in line with Network Code changes. Amerada Hess Gas Ltd go further stating "We strongly disagree with EnMO's proposal to remove this section and replace it with a change mechanism. This section of the business is core to the Network Code, and is the primary business which EnMO have been invited to operate."

BP Gas, Scottish and Southern Energy Plc, Quantum and PowerGen support removal of Annex D-1 but all but BP Gas caveat this position with the requirement to have satisfactory change provisions incorporated in the OCM subscription Agreement.

Transco's Response:

Transco considers that it would be prudent, and a requirement to satisfy its Safety Case submission, to continue to incorporate those provisions detailed in Annex D-1 of the legal drafting until such time as the community and the HSE agrees that such provisions are no longer required. In doing so the community are assured that any changes to the Network Code will be matched by the Market Operator and that no changes will be made unilaterally by the Market Operator which materially affect the provision of the OCM and thereby Transco's access to gas for System Balancing purposes in line with the Network Code. Additionally the retention of the Annex will increase assurance of contractual certainty of the Network Code.

4.11.9 Use of Non-Physical Trades

Concern was expressed by National Power that Transco's use of the NBP Title market could "compound balancing actions if they (Transco) are unable to determine whether these trades are having a real effect on the overall system balance". Shell Gas Direct Ltd state that "we can see no reason why Transco should be permitted to trade in the Title market. They can effect a change in the balance of the system only by using Physical trades." Mobil Gas Marketing expresses the concern that if there is no guarantee that the acceptance of Title gas will lead to physical

then potentially further actions could result. Amerada make a similar point to Shell. On the other hand most of the respondents have not expressed a view despite the fact that this has been debated in work group meetings.

Transco's Response

Transco's view is that it should be provided with discretion to take non-physical trades. Such gas may be available at more favourable prices than the physical alternative. Such trades may give rise to physical flow changes and depending on the relative prices of gas in the physical and non-physical markets, may give rise to enhanced performance in respect of the energy incentive and in respect of neutrality charges.

4.11.10 Cash-Out

Twelve respondents endorsed the view that system prices should be set as detailed in Draft 3.0 of the legal text. In essence SAP will be the weighted average of all trades (excluding those associated with the resolution of Local Transportation Deficits) conducted on the OCM. SMP will be the highest and lowest of all trades (excluding those associated with the resolution of Local Transportation Deficits) to which Transco is a party. The only exceptions were Scottish and Southern Energy that preferred marginal pricing to be based on a percentage above and below SAP and Quantum that supported a three price Cashout but wished to see the prices capped. Scottish and Southern Energy also commented that under periods of systems failure "system prices should continue to exclude those trades entered into to alleviate constraints".

In many cases the setting of these prices was viewed as an interim solution pending the development of a line-pack service by Transco.

Transco's Response:

Transco believes that, in most cases, the cash out prices will provide, in conjunction with the reduction in Shipper tolerances, an appropriate incentive to balance. There may, however, be a risk of insufficient incentives to deliver gas in response to Transco actions in respect of Localised Transportation Deficits and this is an issue that may need to be the subject of regulatory over-sight. Transco can also confirm that, during the operation of any Flexibility Mechanism Rules based contingency, System prices will continue to exclude those trades associated with the resolution of Local Transportation Deficits

Transco will consider the provision of a line-pack service in the future and such consideration will need to consider the interactions between gas market liquidity and pricing, cashout pricing, Shipper incentives to

balance and neutrality costs and service income.

4.11.11 Invoicing

Elf Gas and Power Ltd, Eastern Power and Energy Trading and Scottish and Southern Energy Plc expressed concern over the lack of debate over the invoicing procedures for RGTA and the use of Ad Hoc invoicing for the incentive regime. Eastern further recommends that:

“Should Transco decide to use Ad Hoc invoicing Eastern makes the following recommendations:

- New invoices are paid at 30 (working) days rather than 12 calendar days to allow sufficient time for validation (for a period of six months)
- Incentivise the timely furnishing of backup information - i.e. backup to be produce 5 days in advance of invoices as under the Ad Hoc guidelines. Back up data received after this date should result in deferred payment.
- Ad Hoc guidelines as developed in Modification 0252 should be introduced or at least referenced, in the Network Code.
- A date should be set by when Transco must systematise invoices, using due process and consultation.
- Includes energy balancing queries within the scope of Modification 0122 (Query Management)

Introduce overall monitoring of invoice quality/queries (possible sub-committee). This should set up in advance of implementation in order to proactively deal with the problems which will arise”.

Transco's Response:

Transco would like to clarify its intention to continue to use the AT-Link Energy Balancing Invoice (EBI) for the invoicing of all Energy Balancing charges following RGTA implementation. The only exception to this is the invoicing of Transco Energy Balancing Incentive, which will utilise the Ad Hoc Invoicing service. This service provides a prompt, efficient and flexible means of responding to industry initiatives where, as is the case with RGTA implementation, there is insufficient time available for the development of a full UK LINK solution. To facilitate invoice validation, Transco intends that the requisite supporting information will be provided in disc format.

In response to Eastern Power and Energy Trading Ltd's additional

comments, Transco's opinion is that these are a number of general recommendations on Ad Hoc invoicing services, and are not particular or peculiar to RGTA. Transco responses are as follows:

Bullet 1 - Transco does not support this proposal, which would require significant internal manual workarounds and would create confusion with a consequential impact to Shipper operations. The Ad Hoc Transco Energy Balancing Incentive Invoice is scheduled for issue at the same time as the EBI as there is a relationship between the two invoices. Different payment due dates, even for a short period, would reduce the benefits of the Transco Energy Balancing Incentives Invoice to Shippers.

Bullet 2 - Transco is already incentivised to produce accurate invoices. The cost of receiving and actioning disputes is something Transco does not want to incur.

Bullet 3 - Back-up information will be supplied at the same time as the invoice. The invoice is predictable in value by Shippers. An invoice description pack will be prepared and issued prior to the invoice being implemented.

Bullets 4 & 5 - These issues are already under discussion in the Invoicing and Adjustment Workstream. RGTA implementation should not be made conditional upon their resolution.

Bullet 6 - This issue is already in discussion in the Mod 0122 Review Group. RGTA implementation should not be made conditional upon its resolution.

Bullet 7 - Establishing a group of this nature, with appropriate terms of reference, could offer benefits to both Shippers and Transco, reducing the number of invoice queries and helping to secure timely settlement. However, RGTA implementation should not be made conditional upon the establishment of such a group.

4.11.12 Provision of Cashout prices within Day

Alliance Gas Ltd called for System prices to be available in "real time" and Elf gas and Power Ltd called for System prices to be made available within day.

Transco's response:

The Market Operator has given undertakings that it will develop the systems to enable it to provide System prices within day in the short term. From 1st October Transco will continue to provide SMP values under the same timescales as currently.

4.11.13 Use of alternative balancing tools by Transco post October 2000

Thirteen respondents expressed the view that Transco should continue to be restricted to the use of the OCM for the provision of Balancing flexibility post October 2000, and that any change to this position should be subject to the Network Code modification process. British Gas Trading expressed the majority view that "After one year Transco MUST continue to use an appropriate screen-based trading system".

Transco's response:

Transco recognises the concern that many Shippers have about the use of alternative balancing tools. However, Transco considers that, if it is to be incentivised to source gas for System balancing purposes at or close to the prices paid for gas on the OCM, then it should have the same level of discretion as all other parties trading in that market. This would include procuring other sources of flexibility to provide alternative balancing tools. If the OCM proves to be a liquid, transparent market then Transco could be expected to purchase all, or at least the vast majority of its balancing requirements from this market. If Transco does perceive an opportunity to secure flexibility at a cost to the community which is lower than the equivalent available on the OCM then Transco believes it should have the necessary discretion to seize this opportunity to reduce the community's balancing costs. Therefore, although Transco has given its commitment to exclusive use of the OCM for the first 12 months, it considers that it should not be required to extend this commitment beyond this timescale.

Transco expects that alternative balancing tools will be an issue that will be considered next summer following a winters experience of the OCM. However, Transco believe that the current drafting reflects an appropriate degree of commercial discretion for Transco in the longer term.

4.11.14 Physical Renomination Incentive Charges

Scottish and Southern Energy plc "does not support the introduction of Physical Renomination Incentives". Scottish Power "believe that the introduction of Physical Renomination Incentives (PRIs) on Shippers is essential" this position is echoed by Aquilla and BGT although Aquilla considers that these incentives "should be suspended under an emergency and if ATLink fails".

Transco's response:

These incentives are intended to ensure shippers provide their physical renominations in a timely manner following a Physical trade on the OCM. Where Transco is required to take a physical balancing action it needs to be aware within a reasonable timescale that the other party to

this trade is honouring their side of the transaction. Without timely nominations Transco would face further uncertainty as to whether or not the trade has resulted, or can be expected to result, in a physical change on the System. This uncertainty could lead to Transco determining that a second balancing action was necessary, thus increasing the Balancing Neutrality costs.

Transco supports Aquilla's point on suspension of the incentive and has modified the legal drafting accordingly.

4.11.15 Recovery of OCM interface set up costs and initial aggregate fixed element of OCM joining fees.

Scottish and Southern Energy plc "does not support the recovery of such costs from neutrality". Dynegy "believe that Transco is obliged to pay for connection and subscription fees" as a consequence of its price control and National Power plc "do not support Transco's system development costs being smeared back to Shippers". Eastern Power and Energy Trading "consider it wholly inappropriate for any costs, which Transco identify as additional in the development and introduction of the OCM, to be recovered from Shippers."

Transco's response:

Transco will absorb all costs associated with its own system development costs.

However, there are additional costs that will be incurred in respect of the initial contribution that Transco will make to EnMO in respect of the EnMO appointment. The recovery of this £550,000 charge is proposed via an adjustment to the parameters of the Energy Balancing incentive envisaged to apply for two years, equivalent to a £750 uplift per day. This implies a £275k adjustment per year. This means the proposed incentive has a maximum upside of £1400k plus £275k i.e. £1735k per annum. The addition will effectively amend the £2,000k downside collar to £1,725k thereby achieving very close to a symmetrical Cap / Collar.

4.11.16 OCM transaction charges and connection fees.

Dynegy expressed concern over the connection and subscription costs for the OCM and compares these costs to other available trading systems. Scottish and Southern Energy plc considers that "The annual fee for the OCM could be a barrier to entry"

Transco's response:

The fees charged by the Independent Market Operator are not under Transco's control. As a party to Trades on the OCM Transco must also

pay the fees and therefore would share Shippers concerns if the final fees agreed were considered too high and exerted an inappropriate influence on gas prices that would impact on both Transco performance in respect of the incentive and the cost of balancing. Transco believes that EnMO will face strong competitive pressures to ensure that their system represents value for money to Shippers that will have access to other markets and tools.

4.11.17 Role of Top Up gas within the OCM.

Dynergy "believe it acceptable for Top-up offers to be accessible to Transco only if the multiplier is of sufficient size to guarantee that these offers cap the market", Alliance Gas is concerned that Transco may use "Top Up accounts to maximise incentive performance"

Transco's response:

Transco considers that the Top Up Manager should be able to offer gas into the Physical markets of the OCM. This offer will be capable of acceptance by any market participant. The pricing of these offers should continue to be determined in line with Top Up Network Code rules.

4.11.18 Use of the OCM by other parties

Scottish and Southern Energy plc "are disappointed that non-shippers will not be able to participate in the market".

Transco's response:

Transco recognises Scottish and Southern Energy plc's concerns. However, the OCM is being restricted only to the extent that participants must be signatories to the Network Code. This restriction ensures that all participants are able to accept and be allocated title to gas. It may be possible, should EnMO wish, to develop future apparatus for non-Shippers to participate in the market.

4.11.19 Providing provision for an Energy Balancing solution to utilise "System Entry Sells" to address transportation constraints.

Mobil Gas Marketing Ltd whilst not opposing "an energy route to resolve capacity constraints" "feel this option should only be activated once a Network Code modification has been passed". Whereas BP Gas "believe in maintaining a capacity solution as the primary tool for constraint management".

Transco's response:

Current RGTA proposals provide for the resolution of capacity

constraints via the revised capacity regime. It was always recognised that an energy solution could be used, although the St Fergus experience in 1998 indicated that the approach is not without its problems.

Transco recognises that an energy solution, if it involves the sterilisation of associated capacity, could be an effective tool to consider in conjunction with "capacity" options. However, there are significant issues associated with the interrelation between capacity and energy solutions and Transco's incentives.

In line with Shipper requirements, the energy option has been included in the drafting although suspended for the time being until the interactions can be appropriately considered and a further Network Code Modification proposed.

4.11.20 Contingency Arrangements for systems failure.

Dynegy commented that they had yet to see legal drafting on this issue. BGT considered that if the OCM was out of action for only a short period "then a faxed based system should be used" based upon flexibility rules "BUT with a considerably simplified data set". Scottish and Southern Energy Plc also considers that a "fax based contingency would be more appropriate". Alliance Gas Ltd requests "more detail in order to facilitate changes to shippers' own procedures". Elf Gas and Power Ltd requests Transco to provide an "indication as to what it (Transco) would believe to be a reasonable activation period". Scottish and Southern Energy plc believe "that any contingency arrangementsshould be a matter for the contract between Transco and ENMO. ENMO should have contingency arrangements in place to address market failure and IT failure".

Transco's response:

In response to the comments received Transco welcomes the support given to the re-introduction of the flexibility bidding rules (outlined in the legal drafting Transition Document part VII) as a result of failure of the MO's trading system and associated contingency. Re-introduction of these rules provides a mechanism by which either a fax based or the electronic flexibility mechanism may be reinstated as the means by which Transco will source gas for balancing purposes. It is envisaged that for short duration outages of the MO's system and contingency then Transco accept the community's preference for a fax based mechanism through which the flexibility rules can be operated. However, for outages envisaged to be of a longer duration Transco believe that a fax based system would be inadequate and therefore under these longer outage periods the current electronic flexibility mechanism will be re-instated.

Transco is sympathetic to the views expressed concerning simplification

of the flexibility bidding rules when a fax based mechanism is used but to avoid unnecessary changes to systems Transco proposes to keep the flexibility bidding rules unchanged where possible. A future modification to the Network Code may be required to facilitate a debate concerning the exact requirements when operating under a fax based mechanism.

Re-introduction of the flexibility bidding rules is identified in the legal drafting as being a Contingency Balancing Arrangement. As such, when the flexibility bidding rules are invoked, physical renomination incentive charges will be suspended whilst contingency balancing arrangements are in force.

In response to reasonable activation times for the flexibility mechanism Transco believes it would be possible to invoke the flexibility bidding rules extremely quickly, initially as a fax based mechanism and, if necessary to cover a longer period, as an electronic mechanism i.e. existing Flexibility Mechanism.

Transco can also confirm that under Contingency Balancing Arrangements the exclusions to SAP and SMP which result from the resolution of local supply deficits will continue to be applied.

4.11.21 Contingency Arrangements for failure of the Market Operator.

Elf Gas and Power Ltd Comment that the "draft RGTA OCM Contingency document overlooks the possibility of contract termination and that the Trading System Operator ceases to, or is unable to, carry out its business as the provider and operator of the Trading System."

Transco's response:

Transco's draft RGTA OCM Contingency document addressed two specific types of failure for which contingencies would apply. In one such scenario, where the MO's trading system and contingency fails, Transco will re-invoke the flexibility bidding rules and associated fax and/or electronic mechanisms. The scenario whereby the MO may be terminated or has exercised its rights of termination in effect leaves a similar situation to the one of the trading system and its contingency being unavailable. Therefore, the contingency is to revert back to the flexibility bidding rules, albeit for an interim period until an alternative MO is appointed.

The termination criteria between MO and Transco will be included in the appointment contract and as yet agreement has not been reached as to which schedules of the appointment contract will be released into the public domain.

4.11.22 Contingency Arrangements for lack of gas on the OCM for System balancing.

Mobil Gas Marketing Ltd calls for "further clarity" in regard to the separate "call" Agreement with Transco" and also "assume these bids could be placed at extreme prices". It also considers it to be "imperative Transco ensure there are a satisfactory number of shippers participating and volume being bid within the OCM to avoid the above". Elf Gas and Power Ltd ask whether Transco has been able to secure "a satisfactory volume of gas under these arrangements". BG Storage "emphasise that early action is required if gas is to sourced from storage". Eastern Power and Energy Trading believes that "mimimum levels of gas..... should primarily be arranged via Market Maker schemes and the correct commercial and pricing signals". Aquilla Energy also ask for further clarification but raises concern that to "only ask a few shippers to provide non-surplus gasthey (Transco) could be in breach of their PGT Licence by dicriminating between Users." Scottish and Southern Energy echos many of the other comments but also ask for a "defined trigger to invoke such contingency arrangements signed off by OFGEM and the HSE."

Transco's response:

Transco envisages that it will be in a position to secure Letters of Intent to make gas available to the OCM from sufficient Shippers to ensure that it has a robust PGT Safety Case. These letters will seek commitment from Shippers to post surplus gas on the market, although the offered price will be solely the responsibility of the offering Shipper. It is not envisaged that there will be costs arising from these letters as they will not constitute "call options" but will provide comfort that Shippers will post gas on to the market for acceptance in the normal way should Transco call for such gas.

4.11.23 Tolerance Bands

Scottish and Southern Energy plc state that it "does not support the retention of Absolute Tolerance Quantity and Cumulative Imbalance Tolerance Quantity which are currently due to expire on 29 February 2000. They are relics of soft landing and have no place in the new gas trading arrangements." Aquilla Energy wish to see removal of these parameters earlier and states that it "strongly believes that the Absolute Tolerance Quantity and the balancing tolerances should be removed on 1st October 1999". Aquilla, however, "supports the retention of the NDM forecast deviation. This will safeguard shippers against commercial exposure to the cash out regime arising from errors in the NDM forecasts by Transco and the DM forecasts by shippers themselves."

Eastern Power and Energy Trading comment "on the contradiction of

retaining the Absolute and Cumulative Imbalance Tolerance Quantities (ATQ/CITQ). The retention of these tolerances preserves an artificial cross-subsidy that contradicts the aims of reducing balancing tolerances. We would like to understand Ofgem's views for the retention of these tolerances and seek reassurance that in any circumstance these provisions will not be extended."

Transco's Response:

Transco anticipate that the ATQ / CITQ regimes will both fall away on the 29th January 2000 expiry date. Transco does not see any compelling reason for extending the tolerances beyond that date or for bringing forward the date of their expiry. Transco is not proposing to eliminate the protection afforded by the NDM forecast deviation approach.

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

Transco is unaware of any such requirement.

4.13 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:

Transco is unaware of any such requirement.

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

- i. Agree and implement revised Operational Guidelines.
- ii. Agree information to be provided by Transco on System condition.
- iii. Finalise and agree MO contractual framework.
- iv. Finalise IT design requirements based on agreed Detailed Business Rules,
- v. Evaluate systems changes within Transco, Shippers, and Market Operator systems,
- vi. Design and build systems,
- vii. Test revised systems internally with Transco, Shippers and Market Operator,
- viii. Test linkages between systems,
- ix. Develop and implement procedures,
- x. Implement training programmes within Transco, Shippers and Market Operator,

- xi. Amend systems / procedures to reflect observations during training and testing,
- xii. Retest systems,
- xiii. Implement changes.

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

Start building systems early June 1999,
Systems tests complete by End of August,
Implementation and revised systems testing complete by mid / end of September 1999.

4.16 Recommendation concerning the implementation of the Modification Proposal:

Transco recommends that, subject to Paragraph 4.18 below, the following regime is introduced on 1st October 1999:

- i. Introduction of an On-The-Day Commodity Market (OCM) to replace the Flexibility Mechanism.
- ii. Removal of the matched renomination rule on a permanent basis in conjunction with appropriate revisions to Transco's Safety case.
- iii. Introduce energy balancing incentives in the form outlined in the Ofgas document "The New Gas Trading Arrangements" and based around Ofgas' preferred parameters in that document.
- iv. System Average Price (SAP) for imbalance cashout within tolerance to be determined for all non- Local Deficit action related trades in the OCM.
- v. SMP sell and SMP buy to be determined based on non- Local Deficit related Transco trades in the OCM with a greater of / lesser of rule in comparison with SAP to ensure the resultant cashout figures do not generate perverse incentives.
- vi. Narrowing tolerances used to calculate a Shipper's Imbalance Tolerance Quantity (ITQ) by 25% on introduction of the OCM.
- vii. Introduction of Physical Renomination Incentives (PRIs) to encourage Shippers to enter renominations into ATLink following physical trades with Transco within 60 minutes of Transco receiving trade confirmation from the Market Operator.
- viii. Transco to be provided with discretion over timing and volume of balancing actions, the OCM trade type to be used for balancing purposes and the provision of System information to be reflected in the Operational Guidelines where appropriate.
- ix. A revision to Transco's PGT Safety Case submission to the Health and Safety Executive, developed in light of risk assessments undertaken.
- x. Recovery of OCM set-up costs over a twenty four month period.

4.17 Legal Text :

It is proposed that the Network Code be modified as provided in Appendix Four, conditional upon the matters specified in section 5.18, with effect from 1st October 1999.

Amendments to Section D paragraph 2 have been prepared on the basis that a final version of the proposed Market Operator Market Change Rules are not available in a form agreed by the community. In particular the proposed Annex D-1 has been prepared to seek to preserve Code certainty and ensure developments in Code and the proposed market are consistent.

However, provided that the Market Change Rules when finalised are acceptable to potential market participants Transco will be prepared to agree to the removal of certain paragraphs from Annex D-1. In this event Transco considers that the current paragraphs identified below should be retained as a minimum:

Paragraphs: 1,2., 2.5, 3.1, 3.2, 3.3, 3.5, 5.2, 5.3, 5.4 (ii) and (iii), 5.5, 5.6, 5.7, 5.8 and 7.

In addition, if the criteria for designation of Market Operator include the provisions currently contained within the draft within the Ofgas consultation relating to non-discrimination etc. it might be appropriate for paragraph 2 of Annex D-1 to be removed although at this stage this has been included in the drafting.

4.18 Conditionality:

Transco considers that the introduction of this Proposal requires a number of related matters to have been resolved before the Proposal is capable of implementation no earlier than 1st October 1999. These preconditions are as follows:

- i. Modifications to BG's PGT Licence consequent upon RGTA changes being agreed and incorporated in the Licence.
- ii. Ofgem designation of a Trading System Operator in order that Transco may make an appointment.
- iii. Transco having entered into an appointment contract in a form satisfactory to Transco with the designated Market Operator for the provision of market services for the On the day Commodity Market which is free of any condition precedents.
- iv. Revisions to the Transco Operational Guidelines to reflect discretion in respect of timing, volume and contract type.

- v. Agreement of all parties on the level of information to be provided by Transco both within day and after the Gas Day.
- vi. Form and structure of market, market rules and market trading contracts have been agreed between Market Operator and potential market participants and capable of application no earlier than 1st October.
- vii. Completion of commissioning and successful testing of Market Operator systems to support On the day Commodity Market, to specification set out in Transco Market Operator contract.
- viii. Completion and successful testing of changes to Transco UK Link system and of interface with Market Operator system.
- ix. Transco contingency balancing arrangements commissioned, tested and available.
- x. Revisions to the Transco PGT Safety Case regarding RGTA are agreed with HSE and incorporated into the Transco PGT Safety Case.

4.19 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.

4.20 Transco's Proposal:

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

4.21 Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

Date: 5 August 1999

4.22 Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above Proposal (as contained in Modification Report Reference 0313, version 1.0 dated 5th August 1999) be made as a Modification to the Network Code conditional upon the matters specified in section 5.18 of this report.

Signed for and on behalf of the Director General of Gas Supply.

Signature:



Date:

11/9/99

Director Trading Arrangements

The Network Code is hereby modified, with effect from 1 October 1999, in accordance with the Proposal as set out in this Modification Report, version 1.0.

Signature:



Process Manager - Network Code
Transco

Date:

02/09/99

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4.22 Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above Proposal (as contained in Modification Report Reference 0313, version 1.0 dated 5th August 1999) be made as a Modification to the Network Code conditional upon the matters specified in section 5.18 of this report.

Signed for and on behalf of the Director General of Gas Supply.

Signature:

Date:

Director Trading Arrangements

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

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

- (i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") 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 Director 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.



Appendix

1. Transco's System Balancing incentive.

As Shipper tolerances are tightened and the OCM is introduced to enable Shippers to access within day flexibility, Transco's role as residual System balancer should reduce.

A number of parties have suggested that Transco should be incentivised in its role as residual System balancer and a number of proposals have been put forward. However, other parties have contended that it is inappropriate for Transco to be incentivised in this role at this time. The advantages and disadvantages of incentivising Transco in this area are as follows:

Advantages -

- i. May reduce total balancing costs.
- ii. May reduce risk of price spikes.

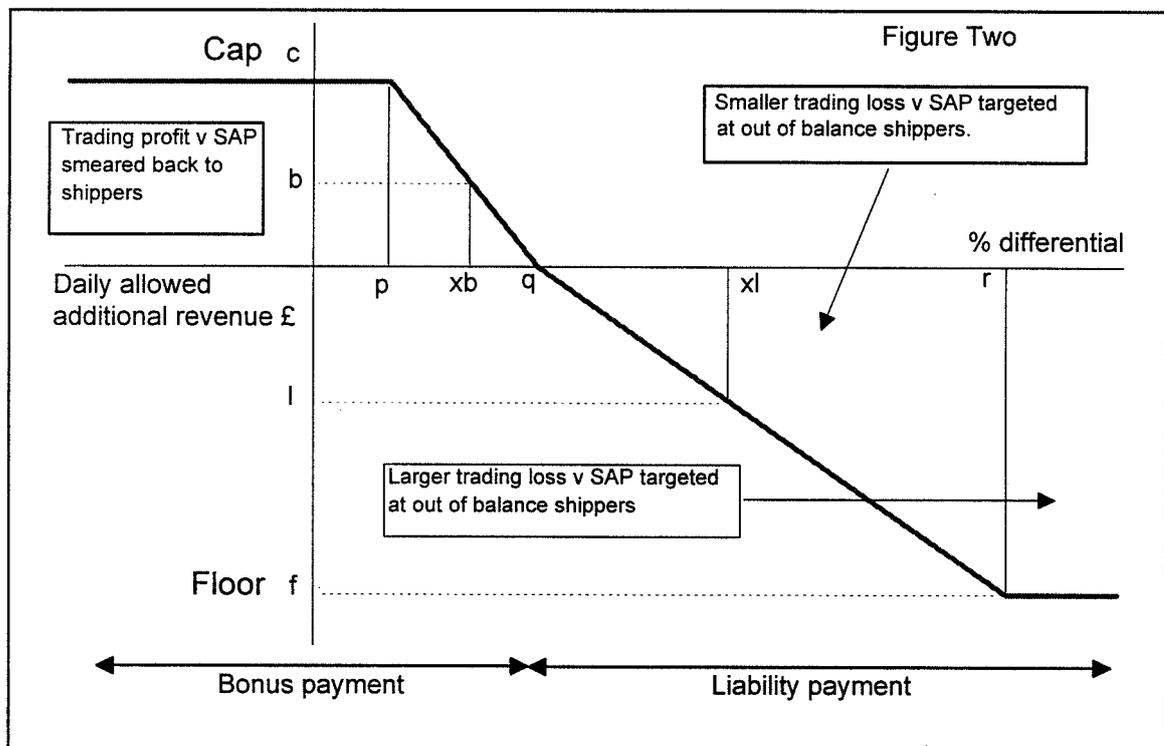
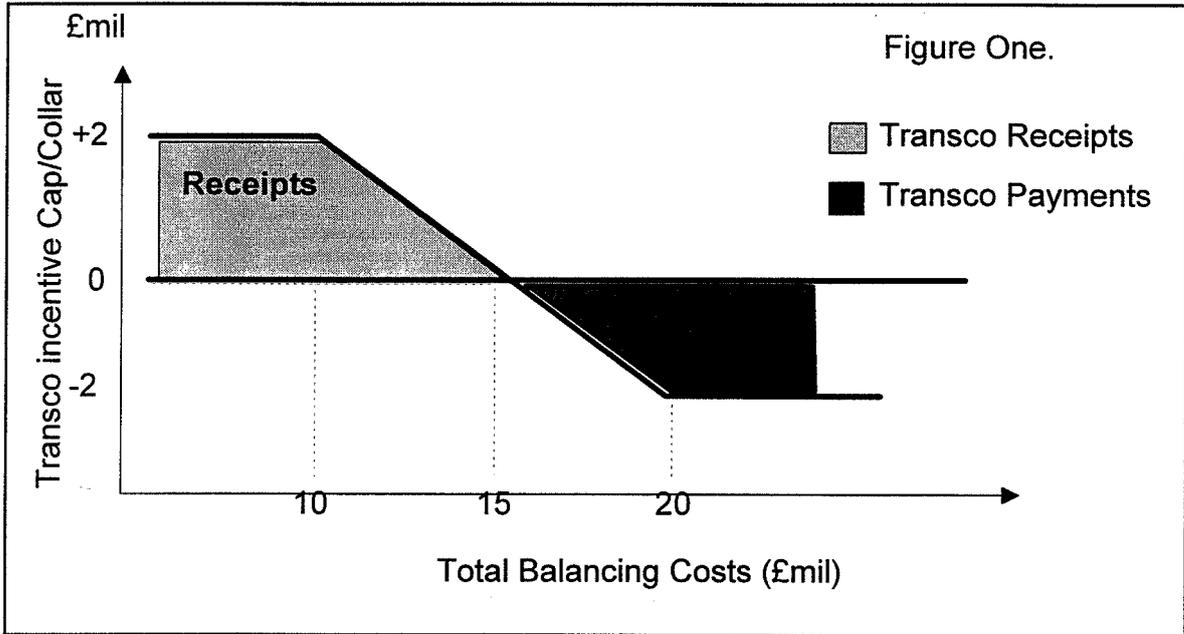
Disadvantages -

- iii. Transco's access to the information needed to operate the network could be perceived as placing it at an advantage within the market and therefore would need to be monitored and managed carefully, implying offsetting compliance costs and inefficiencies.
- iv. The proposed Energy Balancing incentive on Transco will increase the level of contractual risk to which Transco is exposed.
- v. Transco will, to a degree, be trading and taking positions against its own customers and as such may have a potential conflict of interest.
- vi. If Shippers perceive Transco to be gaining at their expense then there is a risk to information flows and a further risk of increased balancing costs.
- vii. There is a risk that non-rule based operation of the System could lead to claims of discrimination and/or abuse of a dominant market position.
- viii. The structure of the incentive may also lead to claims that Transco is not operating the System in an economic and efficient manner as required by the PGT licence.
- ix. Transco will, at times, be a distressed buyer/seller within the market. Therefore, under certain circumstances it could be inappropriate to expect Transco to trade close to the Market Average Price. As such suitable structures and parameters should be included in any incentive to account for the level of control and ability Transco has to respond to any incentive.

The alternatives proposed are as follows:

- a. To reduce total balancing costs based on adjusted historic expenditure. (see figure One).

- b. Operational incentive based on external audit of balancing actions timing and quantities.
- c. To purchase flexibility at as competitive a price as possible and as such the Transco incentive will be based on its performance relative to all other participants in the OCM. In detail Transco will be incentivised to purchase / sell gas at, or close to, the Market Average Price (SAP) of the OCM. (see figure Two).



Details of Option C - based upon that proposed by PowerGen:

There would be both a System Buy Incentive Scheme (SBIS) and a System Sell Incentive Scheme (SSIS). Each scheme would have its own daily incentive cap and collar. Payment / credits under both schemes would be combined and netted off in respect of a monthly and annual cap / collar. Billing issues are covered in Appendix Two.

Parameters for the market based incentive schemes:

TMP_b = Transco Marginal Buy Price will be based on the highest Transco buy trade which contributes to SAP

TMP_s = Transco Marginal Sell Price will be based on the lowest Transco sell trade which contributes to SAP

SAP = Market Average Price (SAP) shall be based on the volume weighted average of all trades on a given day transacted on the OCM excluding those taken by Transco to relieve constraints.

c = The Cap represents the maximum daily bonus that Transco can earn on any day.

f = The floor represents the maximum daily liability (expressed as a negative number) that Transco face on any day.

x = Either $(TMP_b - SAP) / SAP * 100$ in the case of the System Buy Incentive Scheme or $(SAP - TMP_s) / SAP * 100$ in the case of the System Sell Incentive Scheme, expressed as a percentage differential from the SAP.

X_b = A value of X where a bonus payment will apply.

X_l = A value of X where a liability payment will apply.

b = Daily bonus payable for a given value of X_b.

l = Daily liability payment due for a given value of X_l.

p = The lower limit for the percentage differential from the SAP below which the cap will apply.

q = The percentage differential from the SAP at which neither a bonus or liability payment will apply.

r = The upper limit for the percentage differential from the SAP above which the floor will apply.

Transco Performance Factors

Performance Factor on System Buys : $PF_{buy} = [(TMP_{buy} - SAP)/SAP]*100$

Performance Factor on System Sells : $PF_{sell} = [(SAP - TMP_{sell})/SAP]*100$

Transco incentive reward and payments

Transco incentive reward and payments for its buy actions will be as follows:-

Buy Actions:

- i. If $PF_{buy} < p$ then Transco will recover £c from Shippers
- ii. If $p < PF_{buy} < q$ then Transco will recover $\text{£}(c/(q-p))*(q - PF_{buy})$
- iii. If $q < PF_{buy} < r$ then Transco will pay to Shippers $\text{£}(f/(r-q))*(q-PF_{buy})$
- iv. If $r < PF_{buy}$ then Transco will pay to Shippers £f

Transco incentive reward and payments for its Sell actions will be as follows:-

Sell Actions:

- v. If $PF_{sell} < p$ then Transco will recover £c from Shippers
- vi. If $p < PF_{sell} < q$ then Transco will recover $\text{£}(c/(q-p))*(q - PF_{sell})$
- vii. If $q < PF_{sell} < r$ then Transco will pay to Shippers $\text{£}(f/(r-q))*(q-PF_{sell})$
- viii. If $r < PF_{sell}$ then Transco will pay to Shippers £f

Impact on Transco 'bottom-line'

Each of the incentive schemes would reward Transco with a bonus on days when trades are within a given percentage range of SAP and penalise them if outside the range. Each incentive scheme would have a daily cap and floor to prevent excess gains / losses. The daily caps / collars would in turn contribute to a combined monthly cap / collar which would be directly derived from an annual cap / collar of £2m.

Key advantages of market based incentive scheme as outlined by PowerGen.

The key advantages of incentivising Transco to trade as close to Market Average Price as possible are :

- i. It is reflective of market conditions, rather than relying on measuring performance against an arbitrary absolute balancing cost.
- ii. Transco is not directly incentivised to make a trading profit, thus allaying some shippers concerns over the nature of Transco's participation in the market.
- iii. Daily incentivisation promotes good performance day in day out.
- iv. It helps moderate spurious price spikes.
- v. Should Transco happen to make a direct profit out of trading this will be smeared back to shippers.
- vi. It can easily be amended within year.
- vii. It is simple to understand.

The separation of balancing incentives into a System Buy Incentive Scheme and System Sell Incentive Scheme, rather than a single combine scheme, ensures Transco continue to be incentivised to perform under one scheme even though the cap or floor may have been reached in the other.

Disadvantages:

- i. The percentage difference from the Market Average Price is arbitrary and set by reference to previous events.
- ii. Once Transco hits a floor on day there is no further incentive, so price spikes will not necessarily be eliminated.
- iii. Mechanism is indirect such that Balancing Neutrality may not decrease.

2 Data transfer / Invoicing structural changes

Systems changes required to support the introduction of these recommendations are as follows:

A. Data Transfer

- a. Build interface with Market Operator
- b. Provide facility to send EBI to Market Operator (MO) for any imbalances and for trades (see B below)

- c. Provide ability to record data on OCM trades and feed this into and interface with existing AT-Link systems monitoring physical balances and imbalance calculations.
- d. Build functionality to identify occurrence of Physical Renomination Incentive (PRI) breaches, calculate charges, create new charge types on Energy Balancing Invoice for PRIs and any subsequent corrections to PRIs and interface with the calculation of balancing neutrality.
- e. Build functionality to allow Shippers to validate the PRI charges, within day and after the day.

(see appendix 5 for further detailed Business Rules in this area)

B. Invoicing of Trades

This area is dependent on the appointment of the Market Operator but would be either:

- a. Generate new charge types for trades with the MO on the EBI.
- b. Automate Credit / debit to balancing neutrality.
- c. Include new charge types to EBI for corrections to the above.

(see appendix 5 for further detailed Business Rules in this area)

C. Other.

Transco will be responsible for settlement of its own OCM trades transaction charges. Which will have no impact on neutrality. Therefore, these sums will be paid using existing processes and systems.

As the Flexibility Mechanism is to be retained as a contingency for market failure the charge items currently included on the EBI will be retained for as long as the Flexibility Mechanism is required.

(see appendix 5 for further detailed Business Rules in this area)

D. Incentives

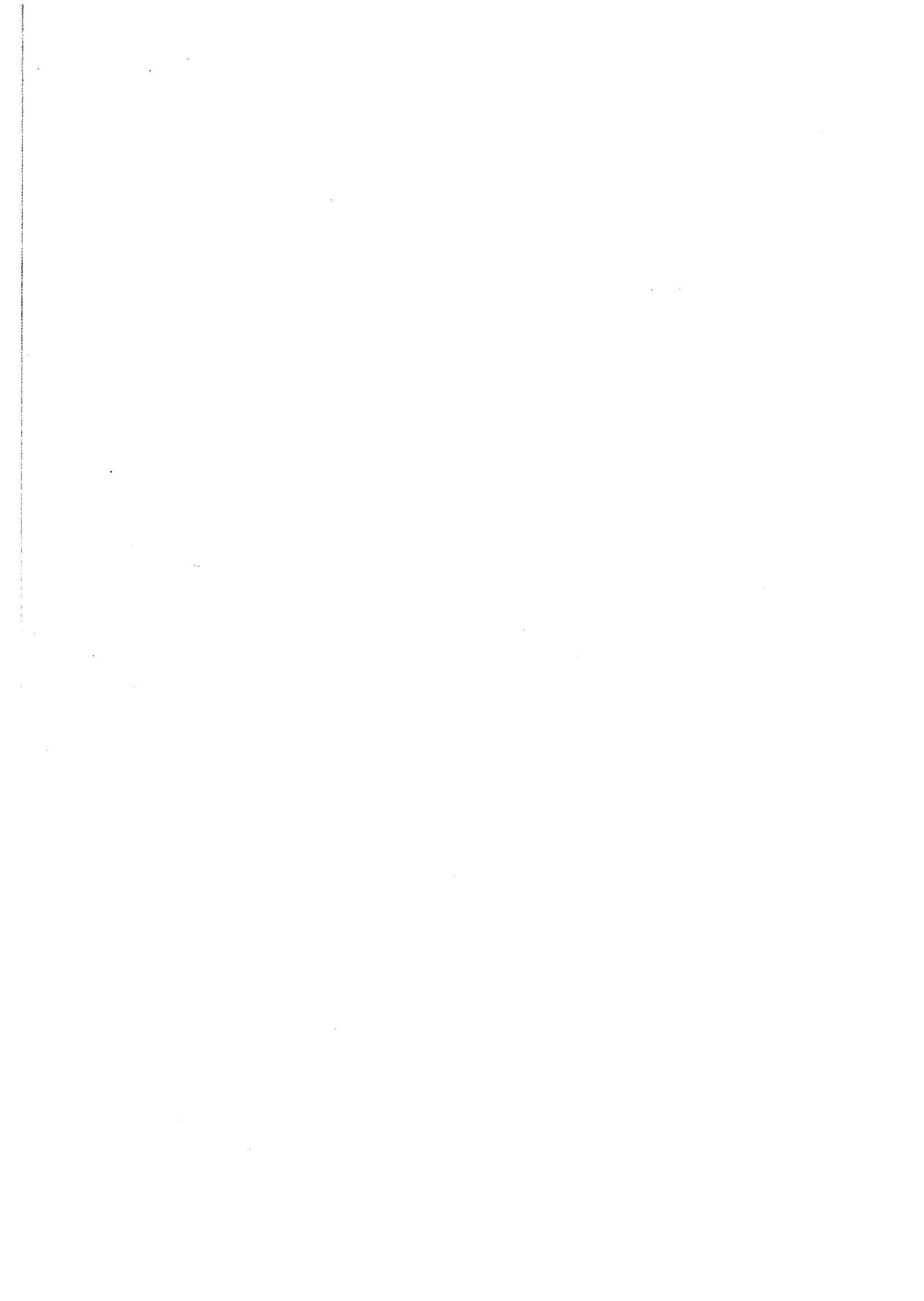
If a non-zero incentive is determined to be favourable then system changes would be required to capture data relating to Transco trades on the OCM, compare these with the SAP supplied by the M.O and calculate the resultant amount to be recovered / shared based on the incentive parameters. The calculation of the amount due / owed for each Shipper will use the same algorithm as that currently used in Balancing Neutrality. This amount will not be billed on the EBI.

(see appendix Six for further detailed Business Rules in this area)

E. Tolerances

Changes to shipper tolerances will impact current imbalance Cashout calculations and will require systems changes within Transco and probable changes within shippers' own systems to enable them to monitor their imbalance exposure.

(see appendix 5 for further detailed Business Rules in this area)



4 **Legal Drafting:**

MODIFICATION 0313

**DEVELOPMENT OF ENERGY BALANCING REGIME TO FACILITATE
IMPLEMENTATION OF THE ON THE DAY COMMODITY MARKET**

Proposed legal text.

SECTION B: SYSTEM USE AND CAPACITY:

Amend paragraph 1.3.5(i) as follows:

“...a User incurs an Overrun Charge, Supply Point Ratchet Charge...”

SECTION C: NOMINATIONS

Delete paragraph 1.1.2(vii).

Amend paragraph 1.1.2(viii) as follows:

“...(but does not include a New Renomination).”

Delete text at paragraph 1.4 and insert 'Not Used'.

Amend paragraph 1.6.1 as follows:

"In respect of each Day Transco will"

Amend paragraph 1.10.2 as follows:

“The Renomination Effective Time of any Renomination shall be in accordance with paragraph 1.10.1.”

Amend paragraph 2.4.3 as follows:

“...the User shall have failed to make a Nomination (but without prejudice to any New Renomination)....”

Amend paragraph 3.4.3 as follows:

“...the User shall have failed to make a Nomination (but without prejudice to any New Renomination)....”

Delete text at paragraph 4 and insert 'Not Used'.

Amend paragraph 5.1.2 as follows:

"Subject to paragraph 5.1.4, a Nomination may be revised by a Renomination."

Delete text at paragraph 5.1.3 and insert >Not Used'.

Delete text at paragraph 5.1.4(iii) and insert as follows:

"in the circumstances in Section D2.3.4;"

Delete text at paragraph 5.1.4(v) and insert as follows:

"in respect of a DMC Supply Point Component, an eligible Connected System Exit Point or DMA Supply Point Group and other than in the case of a Step Change Renomination, unless the Renomination revises its earlier Output Nomination by increasing or decreasing the Nominated Quantity by not less than ½ of the Applicable Imbalance Tolerance Percentage (in accordance with Section F2.2.2)."

Delete text at paragraph 5.1.6 and insert 'Not Used'.

Amend paragraph 5.1.11(a) as follows:

"a **"New Renomination"** is an original Nomination in accordance with paragraph 5.1.13;"

Add new paragraph 5.1.13 as follows:

"Where a User has not made an earlier:

- (i) Input Nomination for the Gas Flow Day in respect of a System Entry Point the User may make an original Input Nomination; or
- (ii) Output Nomination for the Gas Flow Day in respect of a DMC Supply Point Component, an eligible Connected System Exit Point or DMA Supply Point Component, the User may make an original Output Renomination (in respect thereof)

for a Nomination Quantity determined by the User."

Amend paragraph 5.2.1 as follows:

"With effect from each Demand Forecast Time ..."

Delete paragraphs 5.2.2 and 5.2.3

Add new paragraph 5.2.2 as follows:

"A User may (subject to paragraph 5.1.4) make a Step Change Renomination."

Renumber paragraph 5.2.4 as paragraph 5.2.3 and amend as follows:

"Users are required to make Renominations in respect of Supply Points ..."

Delete paragraphs 5.3, 5.4 and 5.5.

Amend paragraph 6.1.1 as follows:

"Where two Users, or (in accordance with paragraph 6.3) Transco and a User, agree to do so, ..."

Delete paragraph 6.2.2(ii) and renumber paragraph 6.2.2(iii) as paragraph 6.2.2(ii).

Add new paragraph 6.3 as follows:

"6.3 System Trade Nominations

6.3.1 Where Transco and a User (a "**System Trade User**") so agree, they may make corresponding Trade Nominations ("**System Trade Nominations**").

6.3.2 The Trade Nomination Quantity pursuant to a System Trade Nomination shall be deemed to be sold and purchased pursuant to a System Clearing Contract:

- (a) which shall arise upon the System Trade Nominations becoming effective and which shall be deemed fully performed;
- (b) for the purposes of which:
 - (i) where the System Trade User made the Disposing Trade Nomination, Transco is buyer and the System Trade User is seller;
 - (ii) where the System Trade User made the Acquiring Trade Nomination, Transco is seller and the System Trade User is buyer;
- (c) in relation to which there shall be no Clearing Price (as the System Trade Contract is effective pursuant to the agreement between Transco and the User to make the System Trade Nominations).

6.3.3 In relation to the System Trade User, the Trade Nomination Quantity pursuant to a System Trade Nomination shall be treated in accordance with paragraph 6.1.3.

6.3.4 Transco may agree with the System Trade User that the Trade Nomination to be made by Transco shall (for the purposes of paragraph 6.2) be deemed to be submitted at the same time as that to be submitted by the System Trade User.”

SECTION D: OPERATIONAL BALANCING AND FLEXIBILITY BIDDING

Rename Section D >OPERATIONAL BALANCING, TRADING ARRANGEMENTS AND ENERGY BALANCING INCENTIVES’

Amend paragraph 1.1.2(ii) as follows, and delete paragraph 1.1.2(iii):

“(ii) take Eligible Balancing Actions in accordance with this Section D.”

Amend paragraph 1.3.2 as follows:

“...can be inferred from User's Nominations (including Renominations), System Trade Nominations and Transaction Details.”

Rename paragraph 1.4 ‘Eligible Balancing Actions’.

Delete text at paragraph 1.4.1 and insert text as follows:

“1.4.1 For the purposes of the Code:

- (i) “**Eligible Balancing Actions**” are:
 - (a) Market Balancing Actions;
 - (b) other actions provided for in the Code to be ‘Eligible Balancing Actions’;
- (ii) the “**Market Balancing Action Charge**” is the amount payable by or to Transco in respect of a Market Balancing Action;
- (iii) a “**Market Balancing Action**” is a Market Balancing Buy Action or a Market Balancing Sell Action.
- (iv) a “**Market Balancing Buy Action**” is the effecting of a Market Transaction (in which Transco is one of the Trading Participants) pursuant to which the User agrees to make a Disposing Trade Nomination;

- (v) a “**Market Balancing Sell Action**” is the effecting of a Market Transaction (in which Transco is one of the Trading Participants) pursuant to which the User agrees to make an Acquiring Trade Nomination;
- (vi) “**Market Balancing Action Quantity**” is the Trade Nomination Quantity in respect of a Market Balancing Action.

Delete text at paragraph 1.4.2 and insert as follows:

“Transco will maintain a record (which, without prejudice to any other provision of the Code, will not be available to Users) of each Eligible Balancing Action taken.”

Delete text at existing paragraph 1.5, and insert as follows:

“1.5 Localised Transportation Deficit

- 1.5.1 Where after 24:00 hours on the Preceding Day it appears to Transco that a Localised Transportation Deficit is likely to arise or has arisen, Transco will take (at such times as it judges operationally appropriate) Market Balancing Buy Action(s) at relevant System Point(s) with a view to gas flow rates at such System Points being increased or (as the case may be) decreased so as to avoid or remedy the Localised Transportation Deficit.
- 1.5.2 In paragraph 1.3 references to Operational Balancing shall be construed as including the taking of Market Balancing Buy Actions by Transco under paragraph 1.5.1 in respect of a Localised Transportation Deficit or anticipated Localised Transportation Deficit and Market Balancing Sell Actions taken as a consequence with a view to maintaining an Operational Balance and references to Operational Balancing Steps and Operational Balancing Requirements will be construed accordingly.
- 1.5.3 For the purposes of the Code a ‘**Localised Transportation Deficit**’ is a condition affecting a part of the System resulting in a deficiency in the quantities of gas which Transco is able to make available for offtake from that part of the System whether such condition results from the size of any part of the System, the operation or failure to operate any part of the System or the extent or distribution of supply or demand in any part of the System but which does not result from a Transportation Constraint affecting a particular System Entry Point or System Entry Points.”

Move text at paragraphs 2, 3 and 4 to new Transition Document, Part VII and insert ‘Not Used’ against paragraph 4.

Add new text at paragraph 2 to read as follows:

“2. TRADING ARRANGEMENTS

2.1 On the Day Market

2.1.1 [Where Transco appoints a person who has established a market for the purposes referred to in standard condition 7.4A of the Transco Licence, Transco will make arrangements with such person]¹ pursuant to which such person will provide and operate an electronic trading system by means of which Users and Transco may (if they have been admitted by such person as participants in such system) post and accept (and revise and withdraw) offers to effect Market Transactions.

2.1.2 Without prejudice to the provisions of Section V4, provided such person has complied with the relevant requirements of Section V2, Transco will admit the Trading System Clearer as a User pursuant to Section V2.5.1 for the purposes only of making Trade Nominations (including System Trade Nominations) pursuant to Section C6.

2.1.3 For the purposes of the Code:

- (i) **“Trading System”** is an electronic trading system provided and operated by the Trading System Operator for the purposes described in paragraph 2.1.1; provided that references to the Trading System shall not include any part of such system by means of which transactions other than Market Transactions may be effected, or by means of which Market Transactions may be effected earlier than the 12:00 hours on the Day before the Gas Flow Day;
- (ii) **“Trading System Operator”** is the person providing and operating the system referred to in paragraph (i);
- (iii) **“Trading System Clearer”** is the Trading System Operator, or a person designated by the Trading System Operator to provide clearing services for the purposes of the Trading System;
- (iv) **“Trading System Arrangements”** are the arrangements including the rules for use of the Trading System made by the Trading System Operator in respect of the provision and operation of the Trading System;
- (v) **“Trading System Contract”** is the contract between Transco and the Trading System Operator setting out the arrangements made by Transco for the purposes of paragraph 2.1.1.

2.1.4 The requirement to make arrangements in paragraph 2.1.1 is without prejudice to Transco's rights of termination pursuant to the Trading System Contract and Transco shall not be in breach of the obligation in paragraph 2.1.1 were the Trading System Contract to terminate as a consequence of:

¹ Text subject to Ofgem/Transco discussions and licence modification consultation process.

- (i) Transco exercising its rights of termination thereunder;
- (ii) the Trading System Operator ceasing to, or otherwise being unable to, carry on its business in providing and operating the Trading System;
- (iii) the giving of a Termination Notice by Transco pursuant to paragraph 2.9.3 of the Network Code Supplement.

2.1.5 Transco shall not be liable to any User for any act, omission or failure of the Trading System Operator under or relating to the terms of the Trading System Contract or the Trading System Arrangements and Transco shall not be required to incur any liability or be required to take any steps, including the commencement of proceedings in connection with the enforcement against the Trading System Operator of its rights pursuant to the Trading System Contract.

2.2 **Market Transactions and Trading Arrangements**

2.2.1 For the purposes of the Code:

- (i) a “**Market Transaction**” is a transaction effected (by means of the Trading System) between two Trading Participants, pursuant to which the Trading System Clearer agrees with each of the Trading Participants separately to make equivalent Trade Nominations (so that the Trading System Clearer agrees with one such participant to make an Acquiring Trade Nomination, and with the other such participant to make a Disposing Trade Nomination);
- (ii) the “**Originating Participant**” in relation to a Market Transaction is the Trading Participant which posted (using the Trading System) the offer, acceptance of which by Transco or another User (the “**Accepting Participant**”) effected such transaction; and where the Originating Participant is a User it is an “**Originating User**”;
- (iii) a “**Physical Market Transaction**” is a Market Transaction pursuant to which the Originating User agrees:
 - (a) to modify the quantity of gas to be delivered to and/or offtaken from the System by the User in aggregate on the Gas Flow Day by an amount equal to the Trade Nomination Quantity (and to modify the rate of such delivery and/or offtake accordingly); and
 - (b) accordingly to make a Nomination(s) or Renomination(s) in accordance with paragraph 2.3;

- (iv) a “**Locational Market Transaction**” is a Physical Market Transaction pursuant to which the Originating User agrees to make a Nomination or Renomination in respect of a specified System Point in accordance with paragraph 2.3;
- (v) a “**Non-physical Market Transaction**” is a Market Transaction which is not a Physical Market Transaction;
- (vi) in respect of an Originating User and in relation to a Physical Market Transaction an “**Eligible Trading System Point**” is a System Point in respect of which the following conditions are satisfied:
 - (i) the System Point is:
 - (a) a System Entry Point in respect of which the User has complied with the requirement in Section B1.5; or
 - (b) a Supply Point in respect of which the User is the Registered User and in relation to which the User may submit a separate Output Nomination; or
 - (c) an eligible Connected System Exit Point in relation to which the User is a CSEP User; and
 - (ii) in the case of a Physical Market Transaction under which the Originating User has agreed to reduce:
 - (a) the quantity of gas to be delivered to the System at a System Entry Point, the User has made an Input Nomination for the Gas Flow Day at such System Entry Point; or
 - (b) the quantity of gas to be offtaken from the System at a System Exit Point, the User has made an Output Nomination for the Gas Flow Day at such System Exit Point

in either case for which the Implied Nomination Flow Rate is not less than the Market Transaction Flow Rate Change.
- (vii) a “**Contract Renomination**” is a Renomination made or to be made by a User (pursuant to a Physical Market Transaction) in accordance with paragraph 2.3;
- (viii) in relation to a Physical Market Transaction the “**Contract Renomination Time**” is the later of 19:00 hours on the Day preceding the Market Offer Date and that time falling 60 minutes after notification by the Trading System Operator to Transco of the Transaction Details, but not later than 04:00 hour on the Market

Offer Date;

- (ix) in respect of a Market Transaction the “**Transaction Details**” are those details to be provided to Transco by the Trading System Operator (in accordance with the Trading System Arrangements) when the Trading System Operator notifies Transco that the Market Transaction has been effected;
- (x) "**Trading Participant**" means a User (other than one admitted pursuant to Section V2.5.1) or Transco, which is for the time being admitted by the Trading System Operator as a participant under the Trading System in relation to Market Transactions;
- (xi) references to 'acceptance' of an offer include acceptance by 'order matching', that is where the posting of the later posted of two matching orders acts as the acceptance of the earlier posted of such orders.

2.2.2 The Trading System Contract will provide for the Trading System Arrangements to be consistent with Annex D-1 and will in addition contain provision whereby the Trading System Operator shall covenant with Transco not to make any modification, change or other alteration to the Trading System Arrangements in respect of a matter within the scope of Annex D-1 other than with the prior written agreement of Transco.²

2.2.3 Transco shall not agree with the Trading System Operator pursuant to the terms of the Trading System Contract to any amendment, change or other alteration to the Trading System Arrangements in respect of a matter within the scope of Annex D-1 unless pursuant to a Code Modification Annex D-1 has been amended in a manner such that following such modification Annex D-1 is consistent with the Trading System Arrangements following the amendment, change or alteration thereto.

2.2.4 In the event that pursuant to a Code Modification the terms of Annex D-1 are modified, changed or otherwise altered, Transco shall not be required to secure that the Trading System Operator modify the Trading System Arrangements such that they are made consistent with the Annex D-1 following such Code Modification.

2.2.5 The Trading System Arrangements will provide that, following the effecting of a Market Transaction, the Trading System Operator will submit, on its own account (or where the Trading System Operator and the Trading System Clearer are different persons, on the Trading System Clearer's behalf) and as User Agent on behalf of the Originating and Accepting Participants, the Trade Nominations agreed to be made pursuant to such Market Transaction.

2.2.6 The Trading System Operator shall be deemed to have submitted Trade Nominations pursuant to paragraph 2.2.5 (and complying with Section C6.2) by notifying to Transco

² Paragraphs 2.2.2, 2.2.3 and 2.2.4 under consideration in context of Annex D-1 discussions.

details of the Market Transaction pursuant to those provisions of the Trading System Arrangements which comply with paragraph 5.4 of Annex D-1.

2.2.7 A Trading Participant may not post a Market Offer to effect a Physical Market Transaction in relation to which the Market Transaction Lead Time is less than one (1) hour.

2.3 Contract Renominations

2.3.1 Subject to paragraph 2.3.6, where a Physical Market Transaction is effected, the Originating User shall make Contract Renomination(s) which are in compliance with the requirements in paragraphs 2.3.2 and 2.3.3.

2.3.2 The requirements referred to in paragraph 2.3.1 are that:

- (i) without prejudice to Section C5.1.4(ii), the Contract Renomination(s) are submitted not earlier than the time the Trading System Operator notifies Transco of the Transaction Details and not later than the Contract Renomination Time;
- (ii) the Contract Renomination(s) shall be submitted in accordance with Section C5.1.7 and shall in addition specify:
 - (a) that the Renomination is a Contract Renomination;
 - (b) the Physical Market Transaction in respect of which it is made;
- (iii) a Contract Renomination may not for the purposes of paragraph (ii) specify more than one Physical Market Transaction;
- (iv) where the User is required to make Contract Renomination(s):
 - (a) other than pursuant to a Locational Market Transaction, the Contract Renomination(s) submitted by the User shall:
 - (1) be in respect of an Eligible System Trading Point(s); and
 - (2) be for Renomination Quantity(ies) in aggregate equal to the Trade Nomination Quantity in respect of which the relevant Physical Market Transaction was effected;
 - (b) pursuant to a Locational Market Transaction, the Contract Renomination submitted by the User shall:
 - (1) be in respect of the Eligible System Trading Point in respect of

which the Locational Market Transaction was effected; and

- (2) be for a Renomination Quantity equal to the Trade Nomination Quantity in respect of which the relevant Locational Market Transaction was effected.

2.3.3 Without prejudice to the requirements of paragraph 2.3.2, where pursuant to the Physical Market Transaction:

- (i) the User has agreed to make a Disposing Trade Nomination, the User must make a Contract Renomination(s) which:
 - (a) revises the User's Input Nomination for a System Entry Point by increasing the Nomination Quantity; and/or
 - (b) is an original Input Nomination for a System Entry Point in respect of which the User has made no earlier Nomination; and/or
 - (c) is a Renomination which revises the User's Output Nomination for a System Exit Point by reducing the Nomination Quantity;
- (ii) the User has agreed to make an Acquiring Trade Nomination, the User must make a Contract Renomination(s) which:
 - (a) revises the User's Input Nomination for a System Entry Point by reducing the Nomination Quantity; and/or
 - (b) is an original Output Nomination for a System Exit Point in respect of which the User has made no earlier Nomination; and/or
 - (c) is a Renomination which revises the User's Output Nomination for a System Exit Point by increasing the Nomination Quantity.

2.3.4 Where pursuant to a Physical Market Transaction in respect of which the Originating User agrees to make:

- (i) a Disposing Trade Nomination in relation to a System Entry Point, the Originating User shall not make a Renomination (other than a Contract Renomination) in respect of such System Entry Point as a result of which the Implied Nomination Flow Rate would be less than the aggregate of the Market Transaction Flow Rate Changes in relation to all earlier Contract Renominations made by the Originating User in respect of such System Entry Point;
- (ii) an Acquiring Trade Nomination in relation to a System Exit Point, the Originating

User shall not make a Renomination (other than a Contract Renomination) in respect of such System Exit Point as a result of which the Implied Nomination Flow Rate would be less than the aggregate of the Market Transaction Flow Rate Changes in relation to all earlier Contract Renominations made by the Originating User in respect of such System Exit Point.

2.3.5 The Renomination Effective Time of a Contract Renomination shall be the Transaction Effective Time of the Physical Market Transaction pursuant to which the Contract Renomination is to be made.

2.3.6 In relation to a Locational Market Transaction in the event the System Point in respect of which the User has agreed to submit Contract Renomination(s) is not an Eligible System Trading Point:

(i) the User shall not be entitled, notwithstanding paragraph 2.3.1, to make a Contract Renomination;

(ii) paragraph 2.3.7 shall nonetheless apply.

2.3.7 Where a Physical Market Transaction is effected, in the event the Originating User:

(i) does not submit a Contract Renomination in accordance with this paragraph 2.3;

(ii) submits a Contract Renomination(s) which does not comply with the provisions of this paragraph 2.3

the Originating User shall pay a charge ("**Physical Renomination Incentive Charge**") calculated in accordance with paragraph 2.3.8.

2.3.8 The Physical Renomination Incentive Charge shall be the greater of:

(i) an amount calculated in accordance with the following formula:

$$\text{TNQ} * 0.005 \text{ pence}$$

where TNQ is the Trade Nomination Quantity in respect of which the relevant Physical Market Transaction was effected; and

(ii) £200.

2.3.9 The Physical Renomination Incentive Charge will be invoiced and payable in accordance with Section S.

2.4 Trading System Contingencies

- 2.4.1 Where Transco is of the opinion that its ability to carry out Operational Balancing is prejudiced by an event or circumstance affecting the Trading System such that no Trading Participant is able to post or accept a Market Offer Transco shall notify Users and with effect from the time specified in such notice Transco shall cease to make use of the Trading System for the purposes of Operational Balancing and Transco may make use of Contingency Balancing Arrangements.
- 2.4.2 Following the use of Contingency Balancing Arrangements pursuant to paragraph 2.4.1 where Transco is of the opinion that the Trading System may be used by Transco for the purposes of Operational Balancing, Transco shall notify all Users of the Day with effect from the start of which Transco shall recommence use of the Trading System (and cease to make use of Contingency Balancing Arrangements) by not later than 10:00 on the Preceding Day.
- 2.4.3 In the event that:
- (i) Transco exercises its rights of termination pursuant to the Trading System Contract;
 - (ii) the Trading System Operator ceases to, or is unable to, carry on its business as the provider and operator of the Trading System;
 - (iii) Transco gives the Trading System Operator a Termination Notice pursuant to paragraph 2.9.3 of the Network Code Supplement

Transco shall promptly notify Users, and with effect from the time specified in such notice Transco shall cease to make use of the Trading System for the purposes of Operational Balancing and Transco may make use of Contingency Balancing Arrangements.

- 2.4.4 Where Transco is of the opinion that by reference to the aggregate quantities of gas for which Users have posted Market Offers and Nomination Information its ability to carry out Operational Balancing is or may be prejudiced Transco shall notify Users of its opinion and request that Trading Participants post further Market Offers provided that the giving of such notice(s) shall be without prejudice to the provisions of Section Q and any actions Transco may take in its capacity as NEC where so appointed.
- 2.4.5 Transco may, with Condition 7(4) Approval of the Director, following the use of Contingency Balancing Arrangements pursuant to paragraph 2.4.4, recommence use of the Trading System for Operational Balancing Purposes and in such circumstances Transco shall notify all Users of the Day with effect from the start of which Transco shall

recommence use of the Trading System (and cease to make use of Contingency Balancing Arrangements) by not later than 10:00 on the Preceding Day.

2.4.6 In relation to each Day in respect of which Transco uses Contingency Balancing Arrangements the provisions of paragraph 2.3 as to Physical Renomination Incentive Charges will not apply.

2.4.7 For the purposes of the Code “**Contingency Balancing Arrangements**” are other arrangements provided for in the Code to be ‘Contingency Balancing Arrangements’.

Add new text at paragraph 3 to read as follows:

“3. ENERGY BALANCING INCENTIVES

3.1 Introduction

3.1.1 Pursuant to the arrangements set out in this paragraph 3, Transco will pay or be paid certain amounts to or by Users in respect of each Day by reference to the extent by which:

- (i) System Marginal Buy Price differs from System Average Price; and
- (ii) System Marginal Sell Price differs from System Average Price.

3.1.2 The arrangement giving effect to paragraph 3.1.1(i) is the “**Buy Incentive Arrangement**”, and the arrangement giving effect to paragraph 3.1.1(ii) is the “**Sell Incentive Arrangement**”.

3.1.3 For the purposes of this paragraph 3:

- (a) the “**Incentive Performance Measure**” is:
 - (i) in relation to the Buy Incentive Arrangement, the percentage determined as:

$$((\text{SMBP} - \text{SAP}) / \text{SAP}) * 100$$

- (ii) in relation to the Sell Incentive Arrangement, the percentage determined as:

$$((\text{SAP} - \text{SMSP}) / \text{SAP}) * 100$$

where:

SAP is System Average Price;

SMSP is System Marginal Sell Price;

SMBP is System Marginal Buy Price.

(b) the “**Incentive Reference Measure**” is:

- (i) in relation to the Buy Incentive Arrangement, five percent (5%);
- (ii) in relation to the Sell Incentive Arrangement, five percent (5%)’.

3.1.4 For the purposes of this paragraph 3, in relation to the Buy Incentive Arrangement or the Sell Incentive Arrangement, for any Day, Transco’s performance is “**superior**” where the Incentive Performance Measure is less than the Incentive Reference Measure and is “**inferior**” where the Incentive Performance Measure is greater than the Incentive Reference Measure.

3.1.5 For the purposes of this paragraph:

(a) the “**Incentive Measure Limit**” is, in respect of:

- (i) the Sell Incentive Arrangement for superior performance, zero per cent (0%);
- (ii) the Buy Incentive Arrangement for superior performance, zero per cent (0%);
- (iii) the Sell Incentive Arrangement for inferior performance, fifty per cent (50%);
- (iv) the Buy Incentive Arrangement for inferior performance, fifty per cent (50%);

(b) the “**Maximum Incentive Amount**” is, in respect of:

- (i) the Sell Incentive Arrangement for superior performance, £2,000 (being a positive amount);
- (ii) the Buy Incentive Arrangement for superior performance, £2,000 (being a positive amount);
- (iii) the Sell Incentive Arrangement for inferior performance, £15,000 (being a negative amount);

- (iv) the Buy Incentive Arrangement for inferior performance, £15,000 (being a negative amount);
- (c) the “**Monthly Incentive Maximum Amount**” is, in respect of the Sell Incentive Arrangement and the Buy Incentive Arrangement:
 - (i) for superior performance, £165,000 (being a positive amount);
 - (ii) for inferior performance, £165,000 (being a positive amount).

3.1.6 In respect of any Day in relation to which a Gas Supply Emergency is declared, or in respect of which Transco makes use of Contingency Balancing Arrangements pursuant to paragraph 2.4, the Sell Incentive Arrangement and the Buy Incentive Arrangement shall be suspended, and accordingly no Daily Incentive Amount shall be determined under paragraph 3.2, nor any User Daily Incentive Amount payable under paragraph 3.4.

3.2 **Daily Incentive Amount**

3.2.1 The provisions of this paragraph 3.2 apply in respect of both the Buy Incentive Arrangement and the Sell Incentive Arrangement, and shall be given effect in respect of each of them separately.

3.2.2 For each Day:

- (a) the “**Daily Incentive Amount**” is the amount determined as:
 - (i) where Transco’s performance is superior:

$$(IRM - \max (IPM, IML)) * MIA / (IRM - IML)$$
 - (ii) where Transco’s performance is inferior:

$$(IRM - \min (IPM, IML)) * MIA / (IML - IRM)$$
 - (iii) where the Incentive Performance Measure is equal to the Incentive Reference Measure, zero

where:

IRM is the Incentive Reference Measure

IPM is the Incentive Performance Measure for the Day;

IML is the Incentive Measure Limit (for superior or inferior performance, as applicable)

MIA is the Maximum Incentive Amount (for superior or inferior performance, as applicable);

(b) the “**Monthly Adjusted Daily Incentive Amount**” is the Daily Incentive Amount multiplied by the Monthly Adjustment Factor (for superior or inferior performance, as applicable) for the month in which the Day falls, in accordance with paragraph 3.3.

3.2.3 For the avoidance of doubt, where Transco took no Market Balancing Buy Action or (as the case may be) no Market Balancing Sell Action for a Day, the Daily Incentive Amount shall be equal to the relevant Maximum Incentive Amount for superior performance.

3.3 **Monthly Adjustment Factor**

3.3.1 For any month, the “**Aggregate Monthly Amount**”:

(a) in relation to superior performance, is the sum of:

- (i) the aggregate Daily Incentive Amounts under the Buy Incentive Arrangement for all Days in the month for which performance was superior; and
- (ii) the aggregate Daily Incentive Amounts under the Sell Incentive Arrangement for all Days in the month for which performance was superior;

(b) in relation to inferior performance, is the sum of:

- (i) the aggregate Daily Incentive Amounts under the Buy Incentive Arrangement for all Days in the month for which performance was inferior; and
- (ii) the aggregate Daily Incentive Amounts under the Sell Incentive Arrangement for all Days in the month for which performance was inferior.

3.3.2 The Monthly Adjustment Factor for each month, in relation to superior performance and inferior performance respectively, shall be:

(i) where AMA is not greater than MIMA, one (1);

- (ii) where AMA is greater than MIMA, the factor determined as:

$$\text{MIMA} / \text{AMA}$$

where:

AMA is the magnitude of the Aggregate Monthly Amount, in relation to superior performance and inferior performance respectively;

MIMA is the magnitude of the Monthly Incentive Maximum Amount, for superior and inferior performance respectively.

3.4 Incentive amounts

3.4.1 The provisions of this paragraph 3.4 apply in respect of both the Buy Incentive Arrangement and the Sell Incentive Arrangement, and shall be given effect in respect of each of them separately.

3.4.2 For the purposes of this paragraph 3:

- (a) the terms 'relevant User', 'relevant UDQI' and 'relevant UDQO' have the meanings ascribed to them for the purposes of Section F4;
- (b) for each relevant User, for each Day, the "**User Daily Incentive Amount**" is the amount determined as the Monthly Adjusted Daily Incentive Amount multiplied by the User Proportion for that Day;
- (c) the "**User Proportion**" for a User in relation to a Day is the sum of the relevant UDQIs and relevant UDQOs for that User, divided by the sum for all relevant Users of their relevant UDQIs and relevant UDQOs.

3.4.3 In respect of each Day for which performance was superior, each relevant User shall pay to Transco the User Daily Incentive Amount.³

3.4.4 In respect of each Day for which performance was inferior, Transco shall pay to each User the User Daily Incentive Amount.

3.5 Payment arrangements

Amounts payable by way of User Daily Incentive Amount (under the Buy Incentive Arrangement and the Sell Incentive Arrangement collectively) shall be invoiced and are payable in accordance with Section S.

³ See new paragraph 8.2 at Transition Document Part II regarding recovery of OCM start up costs.

Add new Annex D-1 to read as follows:

“ANNEX D-1 TRADING SYSTEM ARRANGEMENTS”⁴

1. Introduction

1.1 This Annex D-1 sets out those terms and conditions relating to the Trading System to be incorporated into the Trading System Arrangements.

1.2 For the purposes of the Code:

- (i) **“Market Offer”** is an offer posted by a Trading Participant by way of the Trading System acceptance of which will effect a Market Transaction;
- (ii) **“Market Offer Date”** is the Day which is to be the Gas Flow Day in respect of the Trade Nominations to be made pursuant to acceptance of the Market Offer;
- (iii) **“Market Offer Price”** is the price (in pence/kWh) specified by the Originating Participant when posting a Market Offer;
- (iv) the **“Market Transaction Quantity”** is the quantity which is the Trade Nomination Quantity in respect of the Trade Nominations to be made pursuant to acceptance of the Market Offer;
- (v) the **“Market Transaction Charge”** is the Market Transaction Quantity multiplied by the Market Offer Price;
- (vi) the **“Market Transaction System Point”** in respect of a Locational Market Transaction, is the Eligible System Trading Point at which the Originating User offers to modify the gas flow rate;
- (vii) the **“Market Transaction Lead Time”** in respect of a Market Offer to enter into a Physical Market Transaction, is the period in time (expressed in whole hours) required by the Originating User after the Contract Nomination Time before the Originating User will modify the gas flow rate at a System Point;
- (viii) in relation to a Market Offer:
 - (a) to effect a Physical Market Transaction:

⁴ The precise contents of Annex D-1 remain subject to consideration of the market rules and market change rules which at the time of preparing this text remain under discussion. Transco considers that it may be appropriate to amend the scope of Annex D-1 once the terms of the market rules and market change rules are settled such that only paragraphs 1, 2.4, 2.5, 3.1, 3.2, 3.3, 3.5, 5.2, 5.3, 5.4(ii) and (iii), 5.5, 5.6, 5.7, 5.8 and 7 would be retained.

- (1) the “**Market Offer Specified Quantity**” is the quantity which would be the Trade Nomination Quantity in respect of the Trade Nominations to be made where the Market Offer to effect such Physical Market Transaction is accepted in full;
 - (2) the “**Market Offer Derived Rate**” is the rate in kWh/Day calculated as the Market Offer Specified Quantity multiplied by 24 and divided by the period in hours from the Transaction Effective Time to the end of the Gas Flow Day;
 - (3) the “**Market Offer Specified Rate**” is the rate in kWh/Day which would be equivalent to the Trade Nomination Quantity in respect of the Trade Nominations to be made where the Market Offer to effect such Physical Market Transaction is accepted in full and in relation to which the Transaction Effective Time is on or before 06:00 hours on the Market Offer Date;
 - (4) the “**Market Offer Derived Quantity**” is the quantity equivalent to the Market Offer Specified Rate divided by 24 and multiplied by the period in hours from the Transaction Effective Time to the end of the Gas Flow Day;
- (b) to enter into a Non-Physical Market Transaction, the “**Market Transaction Absolute Quantity**” is the maximum quantity which irrespective of the Transaction Effective Time would be the Trade Nomination Quantity in relation to the Trade Nominations to be submitted on acceptance of the Market Offer;
- (ix) the three “**Market Transaction Types**” are:
- (a) Non-physical Market Transactions;
 - (b) Physical Market Transactions not being Locational Market Transactions;
 - (c) Locational Market Transactions;
- (x) the “**Transaction Effective Time**” is in respect of a Physical Market Transaction, the hour at which, after the Contract Nomination Time, the Market Transaction Lead Time elapses;
- (xi) the “**Contract Nomination Time**” is in relation to a Market Transaction, the hour next falling after the time at which the Market Offer giving rise to the Market Transaction was accepted as ascertained in accordance with the rules of the

Trading System;

- (xii) a “**Market Transaction ID**” is a unique reference number given to each individual Market Transaction by the Trading System Operator and the “**Transco Batch Code**” is a unique reference number which identifies those Market Balancing Actions taken by Transco for the purposes of a particular Operational Balancing Requirement;
- (xiii) the “**Transco Reason Code**” is a code which identifies the nature of the Market Balancing Action which Transco has taken or is seeking to take;
- (xiv) the “**Market Transaction Flow Rate Change**” is
 - (i) where no earlier Nomination was made in respect of the Eligible System Trading Point, the rate in kWh/hour at which gas the subject of a Market Offer for a Physical Market Transaction is to be delivered or offtaken from the System;
 - (ii) where an earlier Nomination was made in respect of the Eligible System Trading Point the amount in kWh/hour by which the gas flow rate is to be increased or (as the case may be) decreased in respect of the gas the subject of a Market Offer for a Physical Market Transaction.

1.3 For the purposes of the Code, ‘Market Offer’ (as defined in paragraph 1.2) includes both an ‘offer’ to make a Disposing Trade Nomination and an ‘offer’ to make a Acquiring Trade Nomination.

2. **Participation and Trading System** ⁵

2.1 [In granting access to the Trading System and in relation to the terms and conditions governing the use of the Trading System the Trading System Operator shall not unduly discriminate between Trading Participants.]

2.2 [The Trading System Operator will not be in breach of the requirements of paragraph 2.1 where:

- (a) the Trading System Operator requires that a User provide a reasonable level of security prior to the User being granted access to the Trading System;
- (b) the charges payable by the User for use of the Trading System are determined by reference to the frequency of Market Offers (and volume of Market Offer Gas in relation thereto) posted by the User.]

⁵ Paragraphs 2.1, 2.2 and 2.3 subject to finalisation of the format of the Ofgem ‘designation’.

- 2.3 Where a User fails to comply with the requirements of the Trading System Operator (referred to in paragraph 2.2(a)) the Trading System Operator may suspend or terminate the User's access to the Trading System.]
- 2.4 Each Trading Participant shall appoint the Trading System Operator as its User Agent, (and the Trading System Operator shall be required to act as each Trading Participant's User Agent) for the purposes of making Trade Nominations on behalf of Trading Participants pursuant to the acceptance of a Market Offer.
- 2.5 The identity of a Trading Participant making a Market Offer will not be disclosed to any other Trading Participant at any time prior to or after acceptance of the Market Offer except where a Market Offer in respect of a Physical Market Transaction is accepted where following such acceptance the identity of the Originating User will be disclosed to Transco.

3. **Market Transactions**

- 3.1 A Market Offer to effect a Non-physical Market Transaction must indicate:
- (i) that it is such a Market Offer;
 - (ii) the Market Offer Date;
 - (iii) whether the Market Offer is a Market Offer to make a Disposing Trade Nomination or an Acquiring Trade Nomination;
 - (iv) the Market Offer Absolute Quantity; and
 - (v) the Market Offer Price;
- 3.2 A Market Offer to effect a Physical Market Transaction must indicate:
- (i) that it is such a Market Offer;
 - (ii) the Market Offer Date;
 - (iii) whether the Market Offer is a Market Offer to make a Disposing Trade Nomination or an Acquiring Trade Nomination;
 - (iv) the Market Offer Specified Quantity or the Market Offer Specified Rate;
 - (v) the Market Offer Price;
 - (vi) the Market Transaction Lead Time; and

- (vii) whether the Market Offer may only be accepted in full.
- 3.3 In addition to the requirements of paragraph 3.1 (other than pursuant to paragraph (i) thereof) a Market Offer to effect a Locational Market Transaction must specify:
- (i) that it is such a Market Offer; and
 - (ii) the Market Transaction System Point.
- 3.4 Where Transco posts a Market Offer Transco shall in addition to the requirements of paragraphs 3.1, 3.2 and 3.3 indicate the Transco Reason Code.
- 3.5 The information to be indicated (other than pursuant to paragraph 3.4) in a Market Offer will be capable of being displayed (by means of differing screens) on the Trading System.
4. **Market Offer Restrictions and Options**
- 4.1 Trading Participants may not post a Market Offer specifying a Market Offer Date falling more than 7 days after the day on which the Market Offer was posted.
- 4.2 There is no limit on the number of Market Offers a Trading Participant may make in respect of a Day
- 4.3 A Market Offer may only specify:
- (i) a Market Offer Specified Quantity which is expressed in whole multiples of 100,000 kWh; or
 - (ii) a Market Offer Specified Rate (provided that for the purposes of calculating the Market Offer Derived Quantity such quantity shall be rounded down to the nearest multiple of 100,000kWh).
- 4.4 When posting a Market Offer an Originating Participant may specify that the Market Offer (an “**Option Market Offer**”) is linked to other Market Offers (a “**Related Market Offer**”) made by the Originating Participant; and on acceptance of an Option Market Offer each other Related Market Offer shall no longer be capable of being accepted by any Trading Participant.
- 4.5 For the purposes of paragraph 4.4 an Option Market Offer may specify no more than one other Market Offer of each other Market Transaction Type as being a Related Market Offer.
- 4.6 Trading Participants may revise or withdraw a Market Offer at any time prior to acceptance of the Market Offer.

4.7 A Trading Participant may when posting a Market Offer to enter into a Physical Market Transaction specify that the Market Offer is only capable of acceptance in full.

4.8 The Trading System Operator will reject any Market Offer which does not comply with the relevant requirements of paragraphs 3, 4.1, 4.3 and 4.5 and where a Market Offer does not so comply it will not be displayed on the Trading System.

5. **Acceptance**

5.1 Market Offers in respect of a Market Offer Date will be capable of acceptance by Trading Participants between 12:00 hours on the Day preceding the Market Offer Date and 03:35 hours on the Market Offer Date.

5.2 Where a Trading Participant accepts a Market Offer in full the Trade Nomination Quantity in respect of the Trade Nominations to be made pursuant to the Physical Market Transaction shall be equivalent to:

(i) in the case of a Market Offer to effect a Physical Market Transaction:

(1) where the Market Offer specified a Market Offer Specified Quantity, the Market Offer Specified Quantity;

(2) where the Market Offer specified a Market Offer Specified Rate, the Market Offer Derived Quantity;

(ii) in the case of a Market Offer to effect a Non-physical Market Transaction, the Market Offer Absolute Quantity.

5.3 Where a Trading Participant partially accepts a Market Offer the Trade Nomination Quantity in respect of the Trade Nominations to be made pursuant to the Market Transaction shall be, where the Market Offer:

(i) was to effect a Physical Market Transaction:

(1) specified a Market Offer Specified Quantity, that quantity in respect of which the Accepting Participant accepted the Market Offer;

(2) specified a Market Offer Specified Rate, that quantity equivalent to the hourly rate in respect of which the Accepting Participant accepted the Market Offer multiplied by the period in hours from the Transaction Effective Time to the end of the Gas Flow Day;

(ii) was to effect a Non-physical Market Transaction, the quantity in respect of which

the Accepting Participant accepted the Market Offer.

5.4 Subject to paragraph 5.5, following acceptance of a Market Offer the Trading System Operator will:

- (i) immediately inform both Trading Participants that a Market Transaction has been effected (and whether it is the Originating Participant in relation thereto) and which Market Offer has been accepted;
- (ii) where the Market Offer was to effect a Physical Market Transaction not later than 5 minutes after acceptance of the Market Offer, submit the following details to Transco:
 - (a) the Market Transaction ID;
 - (b) the Market Offer Date;
 - (c) the identity of the Originating Participant;
 - (d) whether the Originating Participant has agreed to make an Acquiring Trade Nomination or a Disposing Trade Nomination;
 - (e) the quantity in respect of which the Trading Participants effected the Market Transaction;
 - (f) the relevant Market Transaction Type, and where acceptance has given rise to a Locational Market Transaction, the Market Transaction System Point;
 - (g) the time at which the Market Offer was accepted;
 - (h) where Transco is a party to the Market Transaction, the Market Offer Price (expressed to four decimal places and as either a positive or negative) the Transco Reason Code and the Transco Batch ID;
- (iii) not later than 5 minutes after the effecting of a Market Transaction, make as User Agent for each of the Trading Participants two corresponding Trade Nominations on behalf of each Trading Participant, identifying:
 - (a) the Market Offer Date as the Gas Flow Day in respect of which the Trade Nomination is made;
 - (b) the Market Participant in respect of which the Trade Nomination is being made;

- (c) whether the Market Participant is making an Acquiring Trade Nomination or a Disposing Trade Nomination
 - (d) the Trade Nomination Quantity (calculated in accordance with paragraphs 5.2 or 5.3) as the Market Transaction Quantity.
- 5.5 For the purpose of paragraph 5.4(iii)(d), the Trading System Operator will be deemed to have provided such details by providing for each Trading Participant, the cumulative quantities for which the Trading Participant has made Disposing Trade Nominations and/or Acquiring Trade Nominations in respect of the Market Offer Date up to the time at which the Trading System Operator submits such details.
- 5.6 Where a Market Transaction is effected on the Day preceding the Market Offer Date, the Trading System Operator may not submit the Trade Nominations for the purposes of Section D2.2.5 prior to 13:45 hours on the Day the preceding the Market Offer Date.
- 5.7 Other than in respect of a Top-up Market Offer, a Market Offer will not be capable of acceptance by the Trading Participant posting the Market Offer.
- 5.8 Where Transco accepts a Market Offer it shall indicate by means of the Trading System the relevant Transco Reason Code.
6. **Partial Acceptance**
- 6.1 A Market Offer to effect a Non-physical Market Transaction, or a Physical Market Transaction which does not specify that it is only capable of acceptance in full, may be accepted by a Trading Participant for a quantity other than the Market Transaction Absolute Quantity, Market Offer Specified Quantity or Market Offer Derived Quantity and the Trading System will incorporate functionality that permits the partial acceptance of Market Offers by Trading Participants.
- 6.2 Where a Trading Participant partially accepts a Market Offer (including an Option Market Offer) where the Market Transaction Quantity is less than the Market Offer Specified Quantity or, as the case may be, the Market Offer Derived Quantity (such amount the "**Residual Offer Quantity**") where the Residual Offer Quantity is greater than or equal to 100,000 kWh, the Originating Participant shall be deemed to have posted with effect from the time of such partial acceptance, a further Market Offer with the same specifications for the purposes of paragraph 3 as the original Market Offer but in respect of which the Market Offer Specified Quantity is equal to the Residual Offer Quantity.
- 6.3 A Trading Participant may only partially accept a Market Offer such that the Market Transaction Quantity in relation to such partial acceptance is a quantity equivalent to 100,000 kWh or any multiple thereof

6.4 A Trading Participant may not partially accept a Market Offer to effect a Physical Market Transaction where the Originating Participant has specified that the Market Offer is only capable of acceptance in full.

7. **Market Quantities and Charges**

In respect of each Day the Trading System Operator shall notify Transco (by not later than 07:00 hours on the following Day) of:

- (i) the aggregate of the Market Transaction Quantities and the aggregate of the Market Transaction Charges in respect of Market Transactions effected in respect of such Day;
- (ii) in respect of each Market Transaction effected in respect of such Day to which Transco was a party, the Market Offer Date, the Market Transaction ID, the Transco Batch Code, the Market Transaction Quantity, the Market Offer Price, the Transco Reason Code, the Market Transaction Type, the time at which the Market Transaction was effected and whether Transco made a Disposing Trade Nomination or an Acquiring Trade Nomination.

8. **Additional Functionality**

In addition to the functionality required to meet the requirements of paragraphs 1 to 7 (inclusive), the Trading System will have such additional functionality as the Trading Participants and the Market Operator shall in consultation agree.

SECTION E: DAILY QUANTITIES, IMBALANCE AND RECONCILIATION

Amend paragraph 1.1.1(ii) as follows:

“(ii)CSEP Overrun Charges and Supply Point Ratchet Charges;”

Amend paragraph 1.2.2 as follows:

“...(adjusted to take account of Trade Nominations including System Trade Nominations)....”

Delete paragraphs 5.1.1(a)(iv) and (e)(viii) and renumber paragraph 5.1.1(a)(ii) and (iii) as paragraph 5.1.1(a)(i) and (ii) and renumber paragraph 5.1.1(e)(vi) and (vii) as paragraph 5.1.1(b)(i) and (ii).

SECTION F: SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

Amend paragraph 1.1.2(d) as follows:

“**Balancing Neutrality Charges**” are amounts payable by or to Transco, so that it does not gain or lose by the payment and receipt of Market Balancing Action Charges, Daily Imbalance Charges, Scheduling Charges and other amounts specified in and in accordance with paragraph 4.”.

Delete existing text at paragraph 1.2.1 and 1.2.2 and insert text as follows:

“1.2.1 Subject to paragraphs 1.2.2 and 1.2.5, for each Day:

- (i) the “**System Marginal Buy Price**” is the higher of the System Average Price and the price in pence/kWh which is equal to the highest Market Offer Price in relation to a Market Balancing Action taken for that Day;
- (ii) the “**System Marginal Sell Price**” is the lower of the System Average Price and the price in pence/kWh which is equal to the lowest Market Offer Price in relation to a Market Balancing Action taken for that Day;
- (iii) the “**System Average Price**” for a Day is the price in pence/kWh calculated as the sum of all Market Transaction Charges divided by the sum of the Trade Nomination Quantities for all Market Transactions effected in respect of that Day

(and for the avoidance of doubt on a Day on which Transco takes no Market Balancing Action the System Marginal Buy Price and the System Marginal Sell Price shall be the System Average Price).

1.2.2 Where for any Day no Market Balancing Action was taken (or none other than one excluded for the purposes of paragraph 1.2.1 pursuant to paragraph 1.2.3), the System Average Price for that Day shall be the arithmetic mean of the System Average Price determined under paragraph 1.2.1 (or under this paragraph) for each of the 7 preceding Days.

1.2.3 For the purposes of paragraph 1.2.1(i),(ii) and (iii) Primary Excluded Actions and Secondary Excluded Actions will be excluded in determining the System Marginal Sell Price, System Marginal Buy Price and the System Average Price.

1.2.4 For the purposes of paragraph 1.2.3:

- (i) a “**Primary Excluded Action**” is a Market Balancing Buy Action taken pursuant to Section D1.5 for the purposes of increasing or decreasing gas flows at a System Point for the purposes of avoiding or remedying a Localised Transportation Deficit;

- (ii) “**Secondary Excluded Actions**” are the Market Balancing Sell Actions which are excluded, in relation to any Relevant Primary Excluded Actions, in accordance with the following rules, which shall be applied in the chronological order in which Relevant Primary Excluded Actions were accepted:
- (a) all Relevant Sell Actions shall be ranked in order of Market Offer Price (the lowest ranked first, and bids of equal Market Offer Price ranked in chronological order of acceptance);
 - (b) such Relevant Sell Actions shall be excluded (in the order ranked) until:
 - (1) the aggregate of the Market Balancing Action Quantities under the actions so excluded is equal to or first exceeds the Market Balancing Action Quantity(ies) under the Relevant Primary Excluded Actions (the amount of any such excess, the “**relevant deficit excess**”), or
 - (2) all such Relevant Sell Actions have been excluded, if the aggregate of the Market Balancing Action Quantities thereunder does not exceed the Market Balancing Action Quantity(ies) under the Relevant Primary Excluded Actions;
 - (c) where there is a relevant deficit excess, the last Relevant Sell Action to be excluded under paragraph (b)(1) shall be deemed, for the purposes of the further application of this paragraph 1.2.6, to be two Relevant Sell Actions, one (which shall not be treated as so excluded) for an Eligible Balancing Action Quantity equal to the relevant shortfall excess, and one (which shall be treated as so excluded) for a Market Balancing Action Quantity equal to the balance of the whole Market Balancing Action Quantity;
 - (d) for the purposes of this paragraph (ii), in relation to any Relevant Primary Excluded Actions, a “**Relevant Sell Action**” is a Market Balancing Sell Action which:
 - (1) was taken by Transco pursuant to a Market Transaction other than a Locational Market Transaction effected in respect of the System Point in respect of which the Primary Excluded Action was taken;
 - (2) was taken during the period commencing with the taking of the Relevant Primary Excluded Actions and expiring on the expiry of the first full hour (ending on the hour) to expire thereafter, and

- (3) was not excluded pursuant to paragraph (b) in relation to any earlier accepted Relevant Excluded Primary Actions;
- (iii) “**Relevant Primary Excluded Actions**” means one Primary Excluded Action or several Primary Excluded Actions which were accepted at the same time;
- (iv) “**Excluded Balancing Actions**” are Primary Excluded Actions and Secondary Excluded Actions.

Renumber existing paragraph 1.2.3 as paragraph 1.2.5.

Amend paragraph 1.3.1 as follows: ⁶

“Subject to paragraph 1.3.2 for the purposes of paragraphs 2.2.1 and 3.2.2 until the date specified.....”

Amend paragraph 1.3.2 as follows: ⁷

“Paragraph 1.3.1 will apply only where the Registered User”

Amend paragraph 2.2.2 as follows:

- “(i) 2.25% in respect of System Exit Points....;
- (ii) 6% in respect of DM Supply Point Components....;
- (iii) 1.5% in respect of System Entry Points....”

Amend paragraph 3.2.1(a) as follows:

"....Input Nominations for each System Entry Point...."

Amend paragraph 3.3.2(a)(i) as follows:

"....Output Nomination for the relevant System Exit Point...."

Amend paragraph 3.3.2(a)(ii) as follows:

"....Output Nomination for the relevant System Exit Point...."

Amend paragraph 3.4(a)(ii) as follows:

⁶ Existing error in Code text
⁷ Existing error in Code text.

"...Input Nominations of all Users;"

Amend paragraph 4.1.2(d) as follows: ⁸

"a **"relevant Storage Operator"** is a Storage Operator who is not a Trading Participant."

Amend paragraph 4.4.2(a) as follows;

"the Market Balancing Action Charges payable to Transco in respect of each Market Balancing Sell Action (or negatively priced Market Balancing Buy Action) taken for that Day and any other amounts payable to Transco in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements in respect of such Day;"

Add new paragraph 4.4.2(d) as follows:

"(d) the Physical Renomination Incentive Charges payable to Transco in respect of that Day."

Amend paragraph 4.4.3(a) as follows:

"the Market Balancing Action Charges payable by Transco in respect of each Market Balancing Buy Action (or negatively priced Market Balancing Sell Action) taken for that Day and any other amounts payable by Transco in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements in respect of such Day;"

Amend paragraph 4.5.3(a)(ii) as follows:

"the amount of any Market Balancing Action Charges, other amounts payable in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements, Physical Renomination Incentive Charges, Balancing Charges...."

Amend paragraph 4.5.3(b)(ii) as follows:

"the amount of any Market Balancing Action Charges, other amounts payable in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements, Physical Renomination Incentive Charges, Balancing Charges...."

Amend paragraph 4.5.3(b)(iii) as follows:

"...by virtue of the late payment of Market Balancing Action Charges, other amounts payable in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements, Physical Renomination Incentive Charges, Balancing

⁸

Based on Modification 0311 text.

Charges....”.

SECTION I: ENTRY REQUIREMENTS

Amend paragraph 3.10.2(i) as follows:

“...with effect from the Renomination Effective Time of a Renomination in respect of that point.”

SECTION J: EXIT REQUIREMENTS

Amend paragraph 5.5 as follows:

“For the purposes of any provision of the the Code:

- (a) a “**relevant**” Connected System Exit Point is a Connected System Exit Point to which, pursuant to the applicable Network Exit Agreement, that provision is to apply;
- (b) an “**eligible**” Connected System Exit Point is a Connected System Exit Point:
 - (i) at which immediately prior to the coming into effect of the Code Modification pursuant to which this paragraph has effect, a CSEP User may, pursuant to the applicable Network Exit Agreement (as it applied at such date), have offered to buy or sell gas to Transco by offtaking, by increasing the offtake or by decreasing the offtake of gas from the System;
 - (ii) which, pursuant to the applicable Network Exit Agreement, is to be such a Connected System Exit Point.”

SECTION K: OPERATING MARGINS ⁹

Amend paragraph 1.3.4 as follows:

“Transco will not take Market Balancing Actions for Operating Margins Purposes.”.

Amend paragraph 2.1.1(i) as follows:

“...which cannot be satisfied by the taking of any Market Balancing Action (because there are no or insufficient Market Offers which are operationally suitable);”

Amend paragraph 2.1.1(ii) as follows:

⁹ Based on Modification 0311 text.

“...whether or not capable of being satisfied by the taking of a Market Balancing Action.”

SECTION N: SHRINKAGE

Amend paragraph 4.2.2(f) as follows:

"may not post Market Offers;"

Amend paragraph 4.2.4 as follows:

“..., Transco may not take a Market Balancing Action for the purposes of buying or selling gas for the account of the Shrinkage Provider.”

*Add new paragraph 1.6 as follows:*¹⁰

“1.6 Shrinkage Scheduling

- 1.6.1 Each Day Transco will, by assessing gas flows anticipated in the System during the Gas Flow Day on the basis of the Nomination Quantities under approved Initial Nominations and other relevant information endeavour to identify Transportation Constraints affecting NTS System Entry Points in respect of which the Shrinkage Provider has made an Initial Input Nomination (“**Shrinkage Nomination**”).
- 1.6.2 Where an anticipated Transportation Constraint is identified for the Gas Flow Day at a relevant System Entry Point:
- (a) Transco shall determine the constrained percentage and notify the Shrinkage Provider;
 - (b) the Shrinkage Nomination will be revised by reducing the Nomination Quantity by the constrained percentage;
 - (c) the Shrinkage Provider may, by not later the revision deadline:
 - (i) revise its Initial Input Nomination(s) in respect of other System Entry Point(s) by increasing the Nomination Quantity; and/or
 - (ii) submit an original Nomination(s) in respect of a System Entry Point in respect of which the Shrinkage Provider has not made an earlier Nomination.

¹⁰ This provision previously appeared in Section C4 which is deleted in full; in reinstating the text Section N was felt to be the most appropriate location.

- 1.6.3 A revised Nomination under paragraph 1.6.2 shall be submitted in accordance with Section C3.2.
- 1.6.4 Transco may reject or approve the Shrinkage Provider's revised or original Nomination(s) under paragraph 1.6.2 in accordance with Section C3.4.1(i); and (without prejudice to any Nomination not so rejected) where Transco rejects such revised Nomination the prevailing Nomination shall remain in place.
- 1.6.5 A revised Nomination which has not been rejected (in accordance with paragraph 1.6.4) within 60 minutes after the revision deadline shall be deemed to be approved.
- 1.6.6 For the purposes of this paragraph 1.6:
- (a) the "**revision deadline**" is the time which is 30 minutes after Transco's notification under paragraph 1.6.2(i);
 - (b) the "**constrained percentage**" is the percentage reduction in the Nomination Quantity of the Shrinkage Nomination which would (in Transco's estimation) eliminate or alleviate the Transportation Constraint."

SECTION P: TOP-UP STORAGE

Amend paragraph 1.3.1(iv) as follows:

"will make Top-up Market Offers in accordance with paragraph 5;"

Amend paragraph 1.3.2 as follows:

"...for the purposes of making Top-up Market Offers."

Amend paragraph 3.3.1 as follows:

"...upon acceptance of a Top-up Market Offer...."

Amend paragraph 5.2.1 as follows:

"...will make Top-up Market Offer...."

Amend paragraph 5.2.2 as follows:

"A "**Top-up Market Offer**" is a Market Offer to effect a Locational Market Transaction in relation to which the Top-up Manager agrees to make a Disposing Trade Nomination for a System Entry Point comprising the Storage Connection Point

of a Top-up Storage Facility."

Amend paragraph 5.2.3 as follows:

"A Top-up Market Offer...."

Amend paragraph 5.2.4 as follows:

"For the purposes of each Top-up Market Offer:

- (a) the Market Transaction Lead Time shall be 6 hours....
- (b) the Market Transaction Flow Rate Change will be equivalent to the Top-up Manager's Available Storage Deliverability....
- (c) the Market Offer Price shall be the Top-up Market Offer Price."

Amend paragraph 5.2.5 as follows:

"Where on any Day a Top-up Market Offer is accepted the Top-up Manager shall as soon as reasonably practicable post a Market Offer to effect a Locational Market Transaction in relation to which the Top-up Manager agrees to make an Acquiring Trade Nomination in respect of the same Storage Connection Point,....

- (a) the Market Transaction Lead Time....at the time such Market Offer is posted;
- (b) the Market Transaction Flow Rate Change shall be the Market Offer Flow Rate Change for which the Market Offer was made;
- (c) the Market Offer Price shall be the Top-up Market Offer Price."

Amend paragraph 5.3 as follows:

"The Market Offer Price ("**Top-up Market Offer Price**" ("**TMOP**")) under a Top-up Market Offer...

$$\text{TMOP} = \dots$$

where

E is the unit rate (in pence/kWh) of the System Entry Overrun Charge in respect of System Entry Capacity at the Storage Connection Point on the Gas Flow Day;"

Amend paragraph 5.4.1 as follows:

"The Top-up Manager will also make a Top-up Market Offer (an "**Emergency Top-up Market Offer**") to effect a Locational Market Transaction in relation to which the Top-up Manager agrees to make a Disposing Trade Nomination for the System Entry Point comprising the Storage Connection Point of each Top-up Storage Facility...."

Amend paragraph 5.4.2 as follows:

"...an Emergency Top-up Market Offer shall be considered to be a Top-up Market Offer...."

Amend paragraph 5.4.3 as follows:

"In relation to an Emergency Top-up Market Offer....

- (i)(and accordingly where an Emergency Top-up Market Offer is accepted....
- (ii)as though the reference to Top-up Market Offer Price were to the highest Top-up Market Offer Price in respect of any Top-up Storage Facility."

Delete paragraph 5.4.4.

Amend paragraph 6.1.1(vi) as follows:

"Storage Overrun Charges in respect of Emergency Top-up Market Offers;"

Amend paragraph 6.1.2 as follows:

"(iii), by way of Market Balancing Action Charges in respect of Top-up Market Offers;"

Amend paragraph 6.1.4 as follows:

"...by way of Market Balancing Action Charges in respect of a Top-up Market Offer made for that Day under paragraph 5.2.5."

Amend paragraph 6.3.2 as follows:

"....assuming that no Market Offer is accepted in the Top-up Recovery Period."

Amend paragraph 6.3.5 as follows:

"(a)in respect of an Emergency Top-up Market Offer on that Day, less

(b) the sum of each Top-up Market Offer (if any)....

(ii)

where 'Q' is the amount of the Market Balancing Action Quantity under a Top-up Market Offer less the amount of the Market Balancing Action Quantity under a Top-up Market Offer under paragraph 5.2.5 which was accepted for the Day, plus...."

Amend paragraph 6.5.6 as follows:

"...or (as the case may be) the Market Balancing Action Quantity under any accepted Top-up Market Offer...."

SECTION Q: EMERGENCIES

Amend paragraph 3.2.2 as follows:

"In a Network Gas Supply Emergency the application of Section D (other than paragraph 2.4 thereof) will be suspended and with effect from the time the Network Gas Supply Emergency was declared, and in respect of any later Gas Flow Day falling within the duration of a Network Gas Supply Emergency, Transco will not take any Market Balancing Actions; and (in lieu thereof)"

Delete paragraph 3.2.3.

Amend paragraph 4.1.1(iii) as follows:

"... Section D (other than paragraph 2.4 thereof) will not apply (and for the avoidance of doubt the provisions as to Physical Renomination Incentive Charges will not apply);"

Delete paragraph 4.1.3.

Amend paragraph 4.2.4 as follows:

"...as though such amounts were Market Balancing Action Charges payable by Transco (for the purposes of Section F4.3.3)."

SECTION R: STORAGE ¹¹

Amend paragraph 4.2.5 as follows:

¹¹ Based on Modification 0311 text.

“....; provided that a User may post a Market Offer to effect a Locational Market Transaction in relation to which the User agrees to make an Acquiring Trade Nomination for the System Entry Point comprising the relevant Storage Connection Point for a Constrained Storage Day.”

SECTION S: INVOICING AND PAYMENT

Add new paragraph 2.4.6 as follows:

“Transco will, at the same time as it submits a Balancing Invoice in relation to any Billing Period, submit (as an Ad-hoc Invoice) an Invoice Document in respect of amounts payable by or to Transco pursuant to Section D3 in respect of such Billing Period.”

Amend paragraph 2.5.2 as follows:

“Without prejudice to paragraph 2.4.6, there is no expected timing within a calendar month....”

Amend paragraph 2.5.3 as follows:

“...or Ad-hoc Invoice (other than where submitted pursuant to paragraph 2.4.6) is to the period....”

Amend Annex S-1 paragraph 5 (as renumbered pursuant to Modification 0314) as follows:

- “(a) Market Balancing Action Charges in respect of Market Balancing Sell Actions;....
- (i) Market Balancing Action Charges in respect of Market Balancing Buy Actions (a self-bill amount);....
- (k) Physical Renomination Incentive Charges.”

SECTION V: GENERAL

Amend paragraph 1.6.4(ii) as follows:

“....to in the said Condition 5(3):”

Amend paragraph 2.5.1 as follows: ¹²

“A person which is for the time being [designated by the Director for the purposes of standard condition 7.4A of the Transco Licence], or a body which is declared by....”

¹² Text subject to Ofgem/Transco discussions and licence modification consultation process

Amend paragraph 2.5.2(a) as follows:

“...make any Nomination, will not or purport to act as if it were a Trading Participant, become a CSEP User...”

Add new paragraph 5.5.3(vi) as follows:

"to the Trading System Operator to the extent required pursuant to the provisions of Section D or to any person to the extent required pursuant to the Trading System Arrangements."

Amend paragraph 7.2.1(iii) as follows:

“...the amounts of Market Balancing Action Charges, other amounts payable in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements, Balancing Charges...”

Amend paragraph 11.1.6(i) as follows:

“...a Nomination, Interruption Notice...”

Amend paragraph 12.1.1 as follows:

"in calculating Neutrality Charges, Aggregate NDM Reconciliation Charges and Relevant Incentive Charges, Transco has ...".

Add a new paragraph (iii) in paragraph 12.1.2 as follows (and renumber remaining paragraphs (iii) and (iv) as (iv) and (v) respectively):

"(iii) **"Relevant Incentive Charges"** are Capacity Neutrality Charges (under Section B2.11.9(a) and User Daily Incentive Amounts (under Section D3.4.2(b).

Amend paragraphs 12.3.1 and 12.3.2 as follows:

"... Neutrality Charges, Aggregate NDM Reconciliation Charges and Relevant Incentive Charges ...".

SECTION W: INTERPRETATION

Amend paragraph 1 as follows:

"Energy Balancing Charges": Market Balancing Action Charges, other charges payable in respect of Eligible Balancing Actions pursuant to Contingency Balancing

Arrangements, Physical Renomination Incentive Charges, Clearing Charges in respect of Unauthorised Gas Flows....”

Add a new paragraph 2.9.8 as follows:

"2.9.8 For any quantities A, B, C, and so on, the functions 'max' (A, B, C ...) and 'min' (A, B, C ...) denote respectively the greatest and the lowest of A, B and C (and so on)."

SECTION Z: BGS LNG FACILITIES ¹³

Amend paragraph 1.4.3(b) as follows:

“...(including a Renomination)....”

Amend paragraph 6.2.1 as follows:

“...make a Renomination in respect of a Storage Withdrawal Nomination.”

Amend paragraph 6.2.2 as follows:

“Where a User makes a Renomination of a Storage Withdrawal Nomination (such a Renomination or Nomination a “**relevant Nomination**”) the implied withdrawal rate shall not exceed....”

Amend paragraph 6.2.5(e) as follows:

“...a relevant Nomination shall become effective at the time the nomination is made or in respect of a Contract Renomination at the time the Physical Market Transaction giving rise to the requirement to make the Contract Renomination was made plus the withdrawal lead time prevailing at such time or the Transaction Effective Time in relation to such Physical Market Transaction if longer.”

NETWORK CODE SUPPLEMENT

Amend paragraph 2.5.2(ii) as follows:

“...Scheduling Charges, Basic Balancing Neutrality Charges and Physical Renomination Incentive Charges which would (on the basis set out in paragraph 2.5.3) be payable, and the Market Balancing Action Charges and other charges in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements which are payable by or to each User in respect of the relevant Day;”

Delete paragraph 2.9.2(i) and amend paragraph 2.9.2 as follows:

¹³ Based on Modification 0310 text.

"... and until the Cash Call is paid in full Transco will not pay, and (irrespective of the Invoice Due Date) shall be entitled to withhold payment..."

Add new paragraph 2.9.6 as follows:

"2.9.6 Where Transco has given a Trading Participant a Termination Notice pursuant to this paragraph 2.9 it shall promptly inform the Trading System Operator."

TRANSITION DOCUMENT PART II

As the provisions at Part II paragraphs 4.2, 8.2, 8.3, 8.4.1, 8.4.3, 8.8.1 and 8.12 are no longer required the text at such paragraphs shall be deleted.

Add new paragraph 8.1A as follows:

"8.1A Section C: Nominations

"Until 1st October 2000, Transco will not make a System Trade Nomination other than pursuant to a transaction effected on the Trading System."

Add new paragraph 8.2 as follows:

"8.2 Section D: Operational Balancing, Trading Arrangements and Energy Balancing Incentives

B3.4 In respect of each Day during the period 1 October 1999 to 30 September 2001 each relevant User shall pay to Transco an amount calculated as follows:

$$£750 * UP$$

where UP is the User Proportion for that Day."

Delete existing paragraph 10 and insert text as follows: ¹⁴

"10 On the Day Commodity Market

10.1 Market Operation

Until 1 January 2000, the Physical Renomination Incentive Charge shall be £1.

¹⁴ Numbering of this paragraph dependant on removal of existing paragraph 10 pursuant to Modification 0314.

10.2 Flexibility Charges

10.2.1 The provisions of Sections F and S of the Code and the Network Code Supplement in respect of or in connection with the invoicing and payment of Flexibility Charges and Flexibility Overrun Charges which applied immediately prior to the coming into effect of the Code Modification pursuant to which this paragraph has effect, shall continue to have effect until such time as there is no longer any such requirement that they continue to do so.

10.2.2 Without limitation to the provisions of paragraph 10.2.1, the reference:

- (i) in Section F4.4.2(a) to Market Balancing Action Charges payable to Transco in respect of a Market Balancing Sell Action (or negatively priced Market Balancing Buy Action) shall be construed as including Flexibility Charges payable to Transco in respect of a Flexibility Bid for a System Sell (or negatively priced System Buy)
- (ii) in Section F4.4.3(a) to Market Balancing Action Charges payable by Transco in respect of a Market Balancing Buy Action (or negatively priced Market Balancing Sell Action) shall be construed as including Flexibility Charges payable by Transco in respect of a Flexibility Bid for a System Buy (or negatively priced System Sell);
- (iii) in Sections F4.5.3(a)(ii), F4.5.3(b)(ii), F4.5.3(b)(iii), V7.2.1(iii) and paragraph 2.5.2(ii) to Market Balancing Action Charges shall be construed as including Flexibility Charges

where such Flexibility Charges are in respect of a Flexibility Bids accepted by Transco for a Day prior to the Day on which the Code Modification pursuant to which this paragraph applies had effect.

10.2.3 For the purposes of Section F1.2.2(i) where any of the preceding 7 Days referred to:

- (i) falls on or before the Day on which the Code Modification pursuant to which this paragraph applies had effect the System Average Price for such Day shall be the System Average Price calculated in accordance with the provisions of Sections F1.2.1 and 1.2.3 applying immediately prior to the coming into effect of the Code Modification pursuant to which this paragraph has effect;
- (ii) falls on a Day on which Part VII applied, the System Average Price for such Day shall be the System Average Price calculated in accordance with Part VII.

10.2.4 If at the time at which the Code Modification takes effect pursuant to which this paragraph 2.4 applies Transco has appointed a person who has established a market for the purposes referred to in standard condition 7A of the Transco Licence but at such time Transco is not party to a contract with such person or any conditions as to the effectiveness a contract between Transco and such person remain unsatisfied Transco shall promptly notify Users, and with effect from the time specified in such notice Transco may make use of Contingency Balancing Arrangements for Operational Balancing.”

Add new paragraph 11 as follows:

“11. Transportation Constraints

- 11.1 The provisions of paragraphs 11.2 to 11.5 (inclusive) shall not apply until such time as by way of Code Modification this paragraph 11.1 no longer applies.
- 11.2 Where after 24:00 hours on the Preceding Day it appears to Transco that a Transportation Constraint is likely to arise or has arisen at a System Entry Point, Transco may take (at such time as it judges operationally appropriate), but shall not be required to, Market Balancing Sell Actions at the relevant System Entry Point with a view to gas flow rates at such point being reduced so as to avoid such Transportation Constraint.
- 11.3 Nothing in paragraph 11.2 shall prejudice Section I3.7.
- 11.4 In Section D1.3 references to Operational Balancing shall be constructed as including steps taken by Transco under paragraph 11.2 in respect of a Transportation Constraint or anticipated Transportation Constraint, and references to Operational Balancing Steps and Operational Balancing Requirements shall be constructed accordingly.
- 11.5 Where Transco takes a Market Balancing Sell Action pursuant to this paragraph 11 the relevant User’s Available System Entry Capacity (determined as Adjusted pursuant to Sections B2.7.10, 2.8.3 and 2.8.5) at the relevant System Entry Point on the Day in respect of which such Market Balancing Sell Action was taken shall for the purposes of Section B2.10 be reduced by an amount equivalent to the Market Balancing Action Quantity in relation thereto.”

Add new Part VII as follows:

“PART VII FLEXIBILITY BIDDING

1. GENERAL

The provisions of this Part VII constitute a Contingency Balancing Arrangement and may have effect in accordance with Sections D2.4 or paragraph 10.2.4 from the time specified

by Transco in a notice given to Users pursuant to Section D2.4 or paragraph 10.2.4.

2. FLEXIBILITY BIDDING

2.1 Flexibility Bid

2.1.1 For the purpose of this Part VII, a “**Flexibility Bid**” is an offer by a User (a “**Bidding User**”):

- (i) to sell gas to Transco on a Day at the Bid Price by delivering or increasing deliveries of gas to the System at a System Entry Point (a “**System Entry Buy**”) or by reducing the offtake of gas from the System at a Flexibility Eligible System Exit Point (a “**System Exit Buy**”); or
- (ii) to buy gas from Transco on a Day at the Bid Price by offtaking or increasing the offtake of gas from the System at a Flexibility Eligible System Exit Point (a “**System Exit Sell**”) or by reducing deliveries of gas to the System at a System Entry Point (a “**System Entry Sell**”).

and in each case to modify the gas flow rate and to be deemed to make a Nomination or Renomination accordingly.

2.1.2 For the purpose of this Part VII a “**System Sell**” is a System Entry Sell or a System Exit Sell and a “**System Buy**” is a System Entry Buy or a System Exit Buy.

2.1.3 For the purpose of paragraph 2.1.1 a “**Flexibility Eligible System Exit Point**” is any System Exit Point other than an NDM Supply Point Component, DMA Supply Point Component or SDMC(I) Supply Point Component or relevant Connected System Exit Point.

2.2 Bidding requirements

2.2.1 A User may at any time commencing 30 Days before the Gas Flow Day until 04:00 hours on the Gas Flow Day make a Flexibility Bid by submitting to Transco a notice (“**Flexibility Bid Notice**”), subject to and in accordance with this paragraph 2.

2.2.2 A Flexibility Bid Notice shall specify:

- (i) the identity of the Bidding User;
- (ii) the Day or (in accordance with paragraph 2.4.1(b)) Days for which the bid or bids are made;
- (iii) whether the bid is for a System Entry Buy, System Entry Sell, System Entry Exit

- (iv) the Bid Entry Point or Bid Exit Point;
- (v) the maximum and the minimum quantity of gas (which may be the same) for which the bid is made, or (in accordance with paragraph 2.4.1(a)) alternative maximum and minimum quantities;
- (vi) in the case of a System Entry Buy, an estimate of either:
 - (1) the calorific value, or
 - (2) the volume of the maximum quantity within the quantity range, of the Flexibility Gas;
- (vii) the flexibility lead time or (in accordance with paragraph 2.4.1(a)) alternative flexibility lead times;
- (viii) the maximum and minimum Flexibility Flow Rate Changes (which may be the same) for which the bid is made, or (in accordance with paragraph 2.4.1(a)) alternative maximum and minimum such changes;
- (ix) the Bid Price, or (in accordance with paragraph 2.4.1(a)) alternative Bid Prices.

2.2.3 A Flexibility Bid may not be made subject to any condition (other than one expressly provided for in this Part VII) and Transco may at its option accept (notwithstanding any purported condition other than one so provided for) or disregard a Flexibility Bid which purports to be so conditional.

2.2.4 A Flexibility Bid Notice may not be amended (but a User may withdraw such a notice and submit a further notice in accordance with this Part VII).

2.2.5 In accordance with paragraph 5.2.1 a User may make a Flexibility Bid without holding System Capacity at the Bid System Point.

2.3 **Bid restrictions**

2.3.1 A Flexibility Bid for a System Entry Buy or System Entry Sell may not be made for a minimum Flexibility Flow Rate Change of less than 0.05 MCM/Day.

2.3.2 A User may not have outstanding for any Day more than two Flexibility Bids for System Entry Buys nor more than two Flexibility Bids for System Entry Sells for which the minimum Flexibility Flow Rate Change is less than 0.5 MCM/Day.

2.3.3 There is no limit on the number of Flexibility Bids which a User may have outstanding

for System Entry Buys or System Entry Sells for which the minimum Flexibility Flow Rate Change is not less than 0.5 MCM/Day.

2.3.4 A User may not have outstanding for any Day more than the relevant number of Flexibility Bids for a System Exit Buy nor more than the relevant number of Flexibility Bids for a System Exit Sell in respect of any Flexibility Eligible System Exit Point, where the relevant number is four in the case of a VLDMC Supply Point Component and one in the case of any other Flexibility Eligible System Exit Point.

2.3.5 For the purpose of this paragraph 2.3:

- (i) a Flexibility Bid is outstanding for a Day where and for so long as it has been made by a User and not withdrawn under paragraph 2.7 or accepted under paragraph 3;
- (ii) a flexibility option bid under paragraph 2.4.1(a) counts as one bid notwithstanding the number of bid alternatives thereunder.

2.3.6 Where a User makes a Flexibility Bid, the condition in paragraph 3.4.2 must be capable of being satisfied (assuming acceptance of the Flexibility Bid at the time the bid is made, and taking account of paragraph 4.1.2(d)) for all quantities within the quantity range, all Flexibility Flow Rate Changes within the Flow Rate Change Range, and in the case of a flexibility option bid (in accordance with paragraph 2.4.1(a)) for all options.

2.4 Options for Flexibility Bidding

2.4.1 A User submitting a Flexibility Bid Notice may;

- (a) subject to paragraph 2.4.2 designate the Flexibility Bid as a “**flexibility option bid**”, in which case the Flexibility Bid Notice shall specify alternative combinations (each one a “**bid alternative**”) of quantity ranges, flexibility lead times, Flow Rate Changes Ranges, and Bid Prices for which the bid is made; and/or
- (b) where the Flexibility Bid Notice contains a Flexibility Bid for a System Entry Buy or System Exit Sell, specify a number of consecutive Days for which the Flexibility Bid Notice is submitted and designate the notice as made either:
 - (i) under this paragraph (i), in which case the Flexibility Bid may be accepted by Transco for any one but only one of the specified Days;
 - (ii) under this paragraph (ii), in which case the Flexibility Bid Notice shall contain identical bids for each of the specified Days and may be accepted by Transco for all or any one or more of the specified Days.

2.4.2 For the purposes of paragraph 2.4.1(a), a User may not in a flexibility option bid specify more than:

- (i) in the case of a System Entry Point or VLDMC Supply Point Component, 3 bid alternatives;
- (ii) in the case of any other Flexibility Eligible System Exit Point, 2 bid alternatives.

2.4.3 Where a User submits a flexibility option bid:

- (a) Transco may accept the Flexibility Bid for any one of the bid alternatives;
- (b) acceptance by Transco of the Flexibility Bid for one of the bid alternatives shall extinguish the Flexibility Bid (but where the Flexibility Bid Notice is made under paragraph 2.4.1(b)(ii), only for the relevant Day) as to the remaining bid alternatives.

2.4.4 Acceptance by Transco of a Flexibility Bid for a quantity less than the maximum within the quantity range shall extinguish the Flexibility Bid as to the remaining quantity.

2.5 Turn-down bids

2.5.1 Where a User makes a Flexibility Bid for a Systems Entry Sell or a System Exit Buy, the bid shall not be valid until and unless:

- (a) in the case of a System Entry Sell, the Bidding User makes an Input Nomination for the Gas Flow Day at the Bid Entry Point,
- (b) in the case of a System Exit Buy, the Bidding User makes an Output Nomination for the Gas Flow Day at the Bid Exit Point

in either case for which the Implied Nomination Flow Rate is not less than the maximum Flexibility Flow Rate Change.

2.5.2 Where, at a time at which a Flexibility Bid with paragraph 2.5.1 is or has become valid (in accordance with that paragraph) but not been accepted, the Bidding User makes a Renomination in respect of the Bid System Point following which the Implied Nomination Flow Rate is less than the maximum Flexibility Flow Rate Change, the bid shall remain valid but for a maximum Flexibility Flow Rate Change equal to the Implied Nomination Flow Rate (or cease to be valid if the minimum Flexibility Flow Rate Change exceeds the Implied Nomination Flow Rate).

2.5.3 During a Bid Evaluation Period or where a Flexibility Bid within paragraph 2.5.1 has

been accepted, the Bidding User may not make a Renomination in respect of the Bid System Point as a result of which the Implied Nomination Flow Rate would be less than (as the case may be) the maximum Flexibility Flow Rate Change or the amount determined as the Flexibility Quantity divided by the period (in hours) from the Flexibility Effective Time to the end of the Gas Flow Day.

2.6 **Negative Bid Price**

2.6.1 A Flexibility Bid may specify a negative Bid Price, which represents:

- (i) in the case of a System Buy, an amount that the User is willing to pay in order to increase its deliveries of gas to the System or (as the case may be) to reduce its offtake of gas from the System at the Bid System Point, and
- (ii) in the case of a System Sell, an amount that the User wishes to be paid in order to reduce its deliveries of gas to the System or (as the case may be) to increase its offtakes of gas from the System at the Bid System Point.

2.6.2 For the purpose of paragraph 3.2.3(a)(i), in the case of a System Buy a Flexibility Bid with a negative Bid Price will rank higher, and in the case of a System Sell a Flexibility Bid with a negative Bid Price will rank lower, than (in either case) a Flexibility Bid with a positive Bid Price.

2.6.3 For the purposes of paragraph 4.3, where a Flexibility Bid with a negative Bid Price is accepted, payment of the Flexibility Charge will be made by the seller and not the buyer.

2.7 **Withdrawal of Flexibility Bid**

2.7.1 A User may withdraw a Flexibility Bid which has not been accepted by Transco, subject to an in accordance with this paragraph 2.7.

2.7.2 The User shall submit a notice ("**bid withdrawal notice**") specifying:

- (i) the identity of the User; and
- (ii) the Flexibility Bid Notice in respect of the Flexibility Bid(s) to be withdrawn.

2.7.3 A Flexibility Bid may not be withdrawn during a Bid Evaluation Period and if a User submits a bid withdrawal notice during a Bid Evaluation Period:

- (i) Transco will notify the User that a Bid Evaluation Period is current;
- (ii) the bid withdrawal notice shall be of no effect and (without prejudice to any further bid withdrawal notice submitted after the end of the Bid Evaluation

Period) the Flexibility Bid Notice shall remain in force and the Flexibility Bid thereunder may be accepted (in accordance with paragraph 3) by Transco.

2.7.4 A bid withdrawal notice may not be withdrawn nor made conditional.

2.7.5 Subject to paragraph 2.7.3 the bid withdrawal notice shall be effective when submitted and the Flexibility Bid Notice (and the Flexibility Bid(s) thereunder, including in the case of a Flexibility Bid Notice under paragraph 2.4.1(b)(ii) the Flexibility Bid for the subsequent Days) shall be withdrawn upon submission of the bid withdrawal notice.

2.8 Definitions

For the purpose of this Part VII, in relation to a Flexibility Bid:

- (a) “**Flexibility Gas**” is gas the subject of the Flexibility Bid;
- (b) the “**Bid Price**” is the price (in pence/k/Wh) specified by a Bidding User for the Flexibility Bid;
- (c) “**flexibility lead time**” is the period of time required by the User after acceptance by Transco of the Flexibility Bid before the User will modify the gas flow rate at the Bid System Point;
- (d) “**Flexibility Flow Rate Change**” is:
 - (i) where no earlier Nomination was made in respect of the Bid System Point, the rate (in MCM/Day) at which Flexibility Gas is to be delivered or offtaken;
 - (ii) where an earlier Nomination was made in respect of the Bid System Point, the amount (in MCM/Day) by which the gas flow rate is to be increased or (as the case may be) decreased in respect of Flexibility Gas;
- (e) the “**Bid Entry Point**” or “**Bid Exit Point**” is the System Entry Point or System Exit Point at which the gas flow rate is to be modified; and the “**Bid System Point**” is the Bid Entry Point or Bid Exit Point;
- (f) the “**quantity range**” is the range of quantities defined by the maximum and minimum quantities specified in the Flexibility Bid Notice;
- (g) the “**Flow Rate Change Range**” is the range of Flexibility Flow Rate Changes defined by the maximum and minimum such changes specified in the Flexibility Bid Notice.

2.9 Bid Information

- 2.9.1 Users will have access each Day by means of UK Link to the following details in respect of Flexibility Bids which are outstanding for that and any subsequent Day or which have been accepted for that Day; the details (for each bid alternative, in the case of a flexibility option bid) under sub-paragraphs (iii),(iv),(v),(viii) and (ix) of paragraph 2.2.2 (but only the maximum values as respects sub-paragraphs (v) and (viii)).
- 2.9.2 The identity of Bidding Users will not be disclosed to Users pursuant to paragraph 2.9.1.

3. ACCEPTANCE OF FLEXIBILITY BIDS

3.1 Acceptance

- 3.1.1 With effect from the Renomination Start Time and throughout the Gas Flow Day Transco may (in accordance with this paragraph 3) accept Flexibility Bids made for the Gas Flow Day for such quantities of Flexibility Gas as it from time to time requires for purposes of Operational Balancing.
- 3.1.2 For avoidance of doubt Transco may at different times, or at the same times at different Bid Entry Points or Bid Exit Points, accept Flexibility Bids for System Sells and System Buys for the same Day.

3.2 Bid evaluation and selection

- 3.2.1 Where for the purposes of Operational Balancing Transco intends to accept Flexibility Bid(s), Transco will:
- (i) initiate a Bid Evaluation Period;
 - (ii) determine which Flexibility Bids are Available in accordance with paragraph 3.2.2;
 - (iii) rank the Available Flexibility Bids in accordance with paragraph 3.2.3; and
 - (iv) review and select for acceptance Available Flexibility Bids in accordance with paragraph 3.2.4.
- 3.2.2 For the purposes of this Part VII a Flexibility Bid is “**Available**” where:
- (a) the Flexibility Bid was made, and in the case of a Flexibility Bid within paragraph 2.5.1 has become and remains valid in accordance with that paragraph, before the start of the Bid Evaluation Period, and is capable of acceptance in accordance

with paragraph 3.4, and

- (b) the operational balancing quantity is not less than:
 - (i) the minimum quantity in the quantity range under the Flexibility Bid,
nor
 - (ii) the product of the minimum Flexibility Flow Rate Change (expressed in kWh/hour) and the period in hours from the expiry (after the time at which the bid would be accepted, and taking into account paragraph 4.1.2(d)) of the flexibility lead time until the end of the Gas Flow Day.

3.2.3 Subject to paragraph 3.2.6, Available Flexibility Bids will be ranked:

- (a) in order of price, the highest ranking being the Flexibility Bid:
 - (i) in the case of a System Sell, for which the Bid Price is highest;
 - (ii) in the case of a System Buy, for which the Bid Price is lowest;
- (b) where two or more Available Flexibility Bids have the same Bid Price, in order of their respective flexibility lead times, the bid with the shortest flexibility lead time being ranked highest among such bids;
- (c) where two or more Available Flexibility Bids have the same Bid Price and flexibility lead time, in the order in which they were made, the earliest made being ranked highest among such bids.

3.2.4 Transco will, in respect of each ranked Available Flexibility Bid, sequentially in the order ranked (starting with the highest ranking), review such bid to determine whether, having regard to the factors in paragraph 3.2.5, such bid is operationally suitable for acceptance (for the purposes of Operational Balancing), until Transco has determined to accept Flexibility Bids in aggregate for approximately the operational balancing quantity, whereupon it will accept the Flexibility Bids so determined.

3.2.5 The facts referred to in paragraph 3.2.4 are:

- (i) the quantity range, Flow Rate Change Range, Bid System Point, flexibility lead time (taking into account paragraph 4.1.2(d)), and (in the case of a System Entry Point) estimated calorific value or volume of the maximum quantity of Flexibility Gas, of the Flexibility Bid under review;
- (ii) the nature and urgency of the Operational Balancing Requirement, and any prevailing Transportation Constraints;

- (iii) the extent to which (as compared with any other Flexibility Bid) acceptance of the Flexibility Bid would be likely to give rise to a subsequent Operational Balancing Requirement as described in paragraph 1.2.2; and
 - (iv) such other consideration as Transco may reasonably determine in the circumstances to be relevant for the purposes of Operational Balancing.
- 3.2.6 Transco may elect, before ranking Available Flexibility Bids under paragraph 3.2.3, to exclude Flexibility Bids which (on the basis of any one or more of the factors referred to in paragraph 3.2.5) are not operationally suitable for acceptance.
- 3.2.7 Transco will secure that the Bid Evaluation Period is not longer than is reasonably necessary in the circumstances to enable Transco properly to carry out the actions described in this paragraph 3.2.
- 3.2.8 For the purposes of this Part VII:
- (a) the “**Bid Evaluation Period**” is a period in which, where Transco intends to accept Flexibility Bids, it evaluates and accepts Flexibility Bids in accordance with this paragraph 3.2;
 - (b) the “**operational balancing quantity**” is the quantity of gas required for Operational Balancing purposes;
 - (c) without prejudice to paragraphs 2.3.5(ii) and 2.4.3, each of the bid alternatives within a flexibility option bid shall be treated as a separate Flexibility Bid.
- 3.2.9 Transco will maintain records (which for the avoidance of doubt will not be available to Users) which will include the times at which and reasons for which it initiates Bid Evaluation Periods, the times at which Bid Evaluation Periods are closed and the reasons for which it accepts Flexibility Bids.
- 3.3 **Acceptance procedure**
- 3.3.1 A Flexibility Bid shall be accepted where Transco gives notice of acceptance to the Bidding User.
- 3.3.2 Notice of acceptance by Transco of a Flexibility Bid shall specify:
- (a) the Flexibility Bid Notice;
 - (b) the quantity (within the quantity range) and Flexibility Flow Rate Change for which the bid is accepted;

- (c) where the bid was a flexibility option bid, the bid alternative for which the bid is accepted; and
 - (d) where the Flexibility Bid Notice was made under paragraph 2.4.1(b), the Day for which the bid is accepted.
- 3.3.3 Where Transco accepts a Flexibility Bid, Transco will (but without prejudice to the effectiveness of such acceptance) give such further notice of acceptance to the Bidding User by Active Notification Communication.
- 3.4 **Restrictions on acceptance**
- 3.4.1 Transco shall not accept a Flexibility Bid at a time, and/or for a quantity or flexibility lead time, where as a result the condition in paragraph 3.4.2 would not be satisfied.
- 3.4.2 The condition referred to in paragraph 3.4.1 is that:
- (i) the Flexibility Flow Rate Change for which the Flexibility Bid is accepted lies within the Flow Rate Change Range; and
 - (ii) the quantity for which the Flexibility Bid is accepted is not greater than the product of the accepted Flexibility Flow Rate Change and the period (in hours) from the Flexibility Effective Time until the end of the Gas Flow Day.

4. FLEXIBILITY QUANTITY AND CONTRACT

- 4.1 Effect of acceptance
- 4.1.1 Where (in accordance with paragraph 3.3) Transco accepts a Flexibility Bid:
- (a) the Flexibility Quantity shall be deemed to be sold and purchased pursuant to a System Clearing Contract;
 - (b) the Flexibility Quantity shall be taken into account in the determination of the User's Daily Imbalance in accordance with Section E5.1;
 - (c) the Bidding User shall be deemed to have made a Renomination in respect of the Bid System Point in accordance with paragraph 4.2.
- 4.1.2 For the purposes of this Part VII, in relation to an accepted Flexibility Bid:
- (a) the “**Accepted Price**” is the Bid Price or (in the case of a flexibility option bid) the Bid Price for which the bid was accepted;

- (b) the “**Flexibility Quantity**” is the quantity of gas for which the bid was accepted;
- (c) the “**Flexibility Charge**” is the Flexibility Quantity multiplied by the Accepted Price;
- (d) the “**Flexibility Effective Time**” is the hour (in accordance with Section C1.10.1) of the Gas Flow Day immediately after the elapse, from the time at which Transco gave notice of acceptance of the Flexibility Bid, of the flexibility lead time, or (in the case of a flexibility option bid) the flexibility lead time for which the bid was accepted.

4.2 **Flexibility Nominations**

- 4.2.1 In the case of a System Entry Buy the Bidding User shall be deemed to have made an original Input Nomination for, or a Renomination increasing the Nomination Quantity under its prevailing Input Nomination by, the Flexibility Quantity.
- 4.2.2 In the case of a System Exit Buy the Bidding User shall be deemed to have made a Renomination decreasing the Nomination Quantity under its prevailing Output Nomination by the Flexibility Quantity.
- 4.2.3 In the case of a System Entry Sell the Bidding User shall be deemed to have made a Renomination decreasing the Nomination Quantity under its prevailing Input Nomination by the Flexibility Quantity.
- 4.2.4 In the case of a System Exit Sell the Bidding User shall be deemed to have made an original Output Nomination for, or a Renomination increasing the Nomination Quantity under its prevailing Output Nomination by, the Flexibility Quantity.
- 4.2.5 Where the Flexibility Effective Time is after the start of the Gas Flow Day, the Renomination Effective Time under the Flexibility Nomination shall be the Flexibility Effective Time.
- 4.2.6 An original Input Nomination under paragraph 4.2.1 or Output Nomination under paragraph 4.2.4 shall be a New Renomination (in accordance with Section C5.1.11(a)).

4.3 **System Clearing Contract**

- 4.3.1 The System Clearing Contract shall arise on Transco's acceptance of the Flexibility Bid and (without prejudice to the determination of the Bidding User's Daily Imbalance in accordance with Section E4) shall be deemed fully performed except as to payment.
- 4.3.2 Except as provided in paragraph 2.6.3:

- (i) in the case of a System Sell, the Bidding User shall pay to Transco the Flexibility Charge;
- (ii) in the case of a System Buy, Transco shall pay to the Bidding User the Flexibility Charge.

4.3.3 The Flexibility Charge will be invoiced and payable in accordance with Section S.

5. MISCELLANEOUS

5.1 General

5.1.1 For the purposes of giving effect to this Part VII in respect of each Day on which it applies, the provisions of this paragraph 5 shall apply.

5.1.2 The provisions of Sections F and S of the Code and the Network Code Supplement which applied in respect of or in connection with the invoicing and payment of Market Balancing Action Charges immediately prior to the coming into effect of this Part VII, shall be deemed to continue to have effect until such time as there is no longer any requirement that they continue to do so.

5.1.3 For the purposes of paragraph 5.6.3, where any of the preceding 7 Days referred to falls on or before a Day with effect from which this Part VII applies the System Average Price for such Day shall be the System Average Price calculated in accordance with the provisions of Sections F1.2.1 and 1.2.2 applying immediately prior to the coming into effect of this Part VII.

5.1.4 For each Day on which this Part VII applies for the purposes of the Code:

- (i) Eligible Balancing Actions shall include the acceptance by Transco of Flexibility Bids;
- (ii) Flexibility Charges in respect of System Sells (or negatively priced System Buys) shall be other amounts payable to Transco in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements for the purposes of Section F4.4.2(a);
- (iii) Flexibility Charges in respect of System Buys (or negatively priced System Sells) shall be other amounts payable to Transco in respect of Eligible Balancing Actions taken pursuant to Contingency Balancing Arrangements for the purposes of Section F4.4.3(a);
- (iv) Flexibility Charges shall be other amounts payable in respect of Eligible

Balancing Actions pursuant to Contingency Balancing Arrangements for the purposes of Sections F4.5.3(a)(ii), F4.5.3(b)(ii) and 4.5.3(b)(iii), Section V7.2.1(iii) and paragraph 2.5.2(ii) of the Network Code Supplement;

5.2 **Section B: System Use and Capacity**

For each Day on which this Part VII applies a User may use the System by delivering gas pursuant to the acceptance of a Flexibility Bid for a System Entry Buy, without holding System Entry Capacity at the relevant Aggregate System Entry Point, and will be liable to pay a System Entry Overrun Charge in accordance with Section B2.10.

5.3 **Section C: Nominations**

5.3.1 For the purposes of this Part VII and the Code;

- (i) a “**Flexibility Nomination**” is the Renomination deemed to be made by a User upon acceptance of a Flexibility Bid under paragraph 4.2;
- (ii) an Initial Nomination does not include a Flexibility Nomination.

5.3.2 A Flexibility Nomination shall be deemed to comply with the requirements of Section C and to be approved by Transco.

5.3.3 A Flexibility Nomination made in respect of a System Point of which the Bidding User has (before acceptance of the relevant Flexibility Bid) made an earlier Nomination shall take effect as a Renomination and revise the Renomination Quantity (in accordance with paragraph 4.2) under such earlier Renomination.

5.3.4 For the purposes of Section C1.10.2 the reference to Renomination shall be construed as including a Flexibility Nomination in respect of an acceptance of a Flexibility Bid.

5.3.5 For the purposes of Sections C2.4.3 and 3.4.3 the reference to a New Renomination shall be construed as including a Flexibility Nomination.

5.3.6 A User shall not be entitled to make a Renomination after a Flexibility Bid made by the User has been accepted, in the circumstances in paragraph 2.5.3.

5.3.7 For the purposes of the Code a New Renomination shall include an original Nomination in accordance with paragraph 4.2.

5.4 **Section D: Operational Balancing, Trading Arrangements and Energy Balancing Incentives**

5.4.1 On any Day in respect of which this Part VII applies for the purposes of Operational Balancing:

- (i) prices and quantities of gas offered by Users for sale to or purchase by Transco each Day will be established;
- (ii) Transco may (by accepting such offers) buy and sell gas, so as to adjust the quantities of gas delivered to and offtaken from the System each Day.

5.4.2 For the purposes of Section D1.5.1, the requirement that Transco will take a Market Balancing Buy Action(s) shall be deemed to be a requirement that Transco accept a Flexibility Bid(s) for a System Buy(s).

5.4.3 In Section D1.3 references to Operational Balancing shall be construed as including the acceptance of Flexibility Bids for System Buys under paragraph 5.4.2 and the acceptance of Flexibility Bids for System Sells taken as a consequence with a view to maintaining an Operational Balance and references to Operational Balancing Steps and Operational Balancing Requirement will be construed accordingly.

5.4.4 Subject to paragraphs 5.4.2 and 5.4.3 Transco will not accept Flexibility Bids other than for the purposes of Operational Balancing.

5.5 **Section E: Daily Quantities, Imbalance and Reconciliation**

5.5.1 For the purposes of Section E1.2.2 a User's Daily Imbalance shall be adjusted to take account of Flexibility Quantities.

5.5.2 For the purposes of determining the Daily Imbalance of a User on any Day on which this Part VII applies:

- (i) to the sum calculated at Section E5.1.1(a) shall be added the aggregate of the Flexibility Quantities under any accepted Flexibility Bids made by the User for System Sells which were accepted by Transco;
- (ii) to the sum calculated at Section E5.1.1(b) shall be added the aggregate of the Flexibility Quantities under any accepted Flexibility Bids made by the User for System Buys which were accepted by Transco.

5.6 **Section F: System Clearing, Balancing Charges and Neutrality**

5.6.1 The reference to Market Balancing Action Charges in Section F1.1.2(d) shall be construed as including Flexibility Charges.



5.6.2 For each Day on which this Part VII applies Sections F1.2.1 and F1.2.2 shall not apply and:

- (a) the “**System Marginal Buy Price**” is the price in pence/kWh which is equal to the highest Accepted Price in respect of any Flexibility Bid for a System Buy accepted by Transco for that Day;
- (b) the “**System Marginal Sell Price**” is the price in pence/kWh which is equal to the lowest Accepted Price in respect of any Flexibility Bid for a System Sell accepted by Transco for that Day;
- (c) the “**System Average Price**” for a Day is the price in pence/kWh calculated as the sum of the Flexibility Charges divided by the sum of the Flexibility Quantities for all Flexibility Bids (for System Buys and System Sells) accepted by Transco for that Day;
- (d) for the avoidance of doubt Sections F1.2.3 and 1.2.4 shall apply, for which purposes reference to a Market Balancing Buy Action and Market Balancing Sell Action taken by Transco shall be construed as including respectively a Flexibility Bid for a System Buy and a Flexibility Bid for a System Sell accepted by Transco.

5.6.3 Subject to Section F1.2.5, where for any Day no Flexibility Bid (or none other than one excluded for the purposes of paragraph 5.6.2 pursuant to Section F1.2.3) was accepted by Transco:

- (a) for either a System Buy or System Sell, the System Average Price for that Day shall be the arithmetic mean of the System Average Prices determined under paragraph 5.6.2 for the preceding 7 Days;
- (b) for a System Buy, the System Marginal Buy Price shall be the System Average Price (in accordance with paragraph 5.6.2 or paragraph (i)) for that Day;
- (c) for a System Sell, the System Marginal Sell Price shall be the System Average Price (in accordance with paragraph 5.5.1 or paragraph (i)) for that Day.

5.6.4 For the purposes of:

- (a) Section F3.2.1(a) the Scheduling Input Nominated Quantity in respect of a User shall be calculated after taking account of any Flexibility Nominations in respect of the relevant System Entry Point;
- (b) Section F3.3.2(a)(i) and F3.3.2(a)(ii) the Scheduling Output Nominated Quantity in respect of a User shall be calculated after taking account of any Flexibility

Nominations in respect of the relevant System Exit Point;

- (c) Section F3.4(a)(ii) the Scheduling Input Nominated Quantity in respect of a relevant Storage Operator shall be calculated after taking account of any Flexibility Nominations in respect of the relevant Storage Connection Balancing Point.

5.6.5 In respect of any Day where following a notification by Transco pursuant to Section D2.4.1 or D2.4.4 that it may make use of Contingency Balancing Arrangements:

- (a) for the purposes of paragraph 5.6.2 no account shall be taken of any Market Transaction effected in respect of such Day prior to the time at which Transco notified Users that it may make use of Contingency Balancing Arrangements;
- (b) no Flexibility Bids are accepted by Transco, the System Average Price for such Day shall be the System Average Price determined pursuant to Section F1.2.1 or F1.2.2 in respect of the Preceding Day.

5.7 **Section I: Entry Requirements**

For the purposes of Section I3.10.2(i) the reference to the Renomination Effective Time of a Renomination shall be construed as including a reference to the Renomination Effective Time of a Flexibility Renomination.

5.8 **Section K: Operating Margins**

5.8.1 Transco will not make Flexibility Bids for System Margin Purposes.

5.8.2 For the purposes of :

- (i) Section K2.1.1(i) the reference to an Operational Balancing Requirement which cannot be satisfied by the taking of Market Balancing Actions because there are no or insufficient Market Offers available shall be construed as including an Operational Balancing Requirement which cannot be satisfied by the acceptance of a Flexibility Bid or Bids because there are no or insufficient Available Flexibility Bids suitable for acceptance;
- (ii) in Section K2.1.1(ii) the reference to the taking of a Market Balancing Action shall be construed as including the acceptance of Flexibility Bids.

5.9 **Section N: Shrinkage**

5.9.1 The Shrinkage Provider may not make a Flexibility Bid.

5.9.2 Transco may not accept a Flexibility Bid for the purposes of buying or selling gas for the account of the Shrinkage Provider.

5.10 Section P: Top-up Storage

5.10.1 Subject to paragraph 5.10.2, on any Day on which this Part VII applies the provisions of Section P shall be suspended and Old Section P shall apply; and for the purposes of this paragraph “**Old Section P**” means the provisions of Section P which applied immediately prior to the coming into effect of the Code Modification pursuant to which this paragraph has effect.

5.10.2 For the purposes of paragraph 5.10.1 the reference in Old Section P:

- (i) at paragraph 1.3.2 to the Top-up Manager being required to pay Flexibility Overrun Charges in accordance with Section B2.5 shall be deemed to be a reference to System Entry Overrun Charges in accordance with Section B2.10;
- (ii) at paragraph 5.3 at ‘E’ to the Flexibility Overrun Charge shall be deemed to be a reference to the System Entry Overrun Charge.

5.11 Section Q: Emergencies

5.11.1 Section Q3.2.2 shall not apply and:

- (i) in a Network Gas Supply Emergency the application of paragraphs 2, 3 and 4 of this Part VII will be suspended, and in particular Transco will not accept any Flexibility Bid made by a User in respect of any Gas Flow Day falling within the duration of the Network Gas Supply Emergency; and (in lieu thereof) the Emergency Procedures will apply and Transco’s decisions as to the delivery and offtake of gas to and from the System shall be implemented pursuant to Section Q3.3 and 3.4;
- (ii) in accordance with paragraph (i), where on a Day on which a Network Gas Supply Emergency occurs Transco has (before the start of the Network Gas Supply Emergency) accepted a Flexibility Bid the Flexibility Charge will not be paid (and Section Q4 shall apply).

5.11.2 For the purposes of Section Q4.1.1(iii) the reference to Section D shall be deemed to be a reference to paragraphs 2, 3 and 4 of this Part VII.

5.11.3 For the purposes of Section Q4.2.4 the reference to the Market Balancing Action Charges payable by Transco shall be deemed to be a reference to the Flexibility Charges payable by Transco.

5.12 Section R: Storage

For the purposes of Section R4.2.5 the reference to a User posting a Market to effect a Locational Market Transaction in relation to which the User agrees to make an Acquiring Trade Nomination for the System Entry Point comprising the relevant Storage Connection Point shall be construed as including the making of a Flexibility Bid for a System Exit Sell at the relevant Storage Connection Point and if such Flexibility Bid is accepted the Flexibility Nomination shall be valid and effective.

5.13 Section S: Invoicing and Payment

For the purposes of Annex S-1 paragraph 5 the reference to Market Balancing Action Charges, Market Balancing Sell Actions and Market Balancing Buy Actions shall be construed respectively as including Flexibility Charges, System Sells and System Buys.

5.14 Section V: General

5.14.1 A Non-Code Shipper may make a Flexibility Bid.

5.14.2 A User admitted pursuant to Section V2.5.1 shall be deemed to have undertaken to Transco that it will not make a Flexibility Bid.

5.14.3 For the purposes of Section V:

(i) at Section V7.2.1(iii) the reference to Market Balancing Action Charges shall be construed as including Flexibility Charges;

(ii) Section V11.1.5 shall not apply in respect of a Flexibility Bid.

5.15 Section Z: BGS Storage Facilities

5.15.1 At Section Z1.4.3(b) the reference to a Renomination shall be construed as including a Flexibility Nomination.

5.15.2 For the purposes of Section Z6.2.1, on acceptance of a Flexibility Bid for a System Entry Sell at a Storage Connection Point the User shall be deemed to make a Storage Withdrawal Nomination as a Flexibility Nomination in respect of the relevant Storage Connection Point, in accordance with Sections C and paragraphs 2, 3 and 4 of this Part VII.

5.15.3 Where a User is deemed to make a Storage Withdrawal Nomination on a acceptance of a Flexibility Bid pursuant to paragraph 5.15.2 such shall be deemed to be a relevant

Nomination for the purposes of Section Z6 and the implied withdrawal rate shall not exceed the available withdrawal rate and shall not be less than zero.

5.15.4 For the purposes of Section Z6.2.5(e) and the calculation of the 'relevant period', a relevant Nomination shall become effective at the time the nomination is made or the Flexibility Bid is accepted plus the withdrawal lead time prevailing at such time (in the case of a Flexibility Bid for a System Entry Buy) the flexibility lead time if longer.

5.16 Network Code Supplement

Where Transco has given notice pursuant to paragraph 2.9.1 of the Network Code Supplement until the Cash Call is paid in full the User shall not be entitled to make a Flexibility Bid and Transco will not accept a Flexibility Bid made by the User.

Appendix 5

RGTA

DETAILED BUSINESS RULES

FOR

ENERGY INVOICING REGIME

Version 2.0

CONTENTS

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1.0 Introduction

This document describes the Invoicing and Billing rules for the energy aspects of the RGTA regime for implementation on October 1st 1999.

The document outlines those changes to the Energy regime which will impact the Energy Balancing Invoice and in turn describes any alterations/modifications which will be introduced.

The principles of the Network Code Energy Balancing regime remain unchanged. However, there are a number of new Charge Types required as a result of RGTA implementation and these are covered in detail in this document.

2.0 Invoicing

This section describes the format of the Energy Balancing Invoice that will become effective when the RGTA Energy regime comes into operation.

2.1 There will be new energy Charge Types introduced for the following areas of RGTA:

Physical Renomination Incentives
Gas Cost of Transco Trades

2.2 Current invoice timings will still apply.

2.3 Invoices will be produced, issued and paid in accordance with current Network Code time scales. File formats will be agreed. All rules are in accordance with those specified in Section S of the Network Code and Supplement.

2.4 Invoice disputes will be allowed up to eighteen months after the issue date of the invoice. All Energy Balancing Invoicing queries will be exempt from Mod 122 as at present.

2.5 All rates will be calculated to four decimal places.

2.6 All charges will be made in pounds to two decimal places (i.e. in £ and pence)

2.7 Field sizes will be compatible with current Invoicing functionality.

2.8 Payment due dates will remain as they are now, i.e. twelve calendar days after the confirmation of receipt of the invoice.

2.9 The Energy Balancing invoice code will remain as **IDB**.

Below are details of the new Charge Types, calculations and associated data components.

3.0 Physical Renomination Incentive

Charge Type = PRI

Physical Renomination Incentives are incurred when a market participant fails to renominate within 60 minutes of the Market Operator registering the details of Physical and Locational trades on Transco systems.

The calculation for this Charge Type is as follows:

T₁ = Time Trade Registered by Market Operator
T₂ = Time Renomination Committed by Shipper
TNQ = Trade Nomination Quantity (kWh)
R = 0.005p/kWh (rate)
PRI = Physical Renomination Incentive

Formula:

IF T₂ - T₁ > 60 MINUTES

THEN TNQ * R = PRI

IF PRI < £200 THEN PRI = £200 (minimum charge)

Physical Renomination Incentives will be calculated daily and appear as a Monthly charge on the invoice.

Physical Renomination Incentives will be charged at a flat rate of £1 per trade for the first 3 months of the OCM becoming operational.

Physical Renomination Incentives will be viewable via AT-Link to both shippers and Transco after the day.

3.1 Physical Renomination Incentive Charge Adjustments

Adjustments for Physical Renomination Incentives will be invoiced via the Ad-Hoc facility within the Energy Balancing Invoice.

The Charge Type which will facilitate adjustments to Physical Renomination Incentives will be:

B90 Adjustment to Physical Renomination Incentives

3.2 Physical Renomination Incentive Neutrality Impacts

All Physical Renomination Incentives and their associated Ad-Hoc adjustments will be classified as 'energy balancing charges' and will therefore be apportioned via the prevailing Balancing Neutrality mechanism.

3.3 Physical Renomination Incentive VAT Implications

All Physical Renomination Incentives and their associated Ad-Hoc adjustments will be subject to VAT at the standard rate (17.5%).

4.0 Transco Trade Buy Gas Cost

Charge Type = TTB

Transco Trade Buy Gas Costs are incurred where Transco is the counterparty to a trade buy with the Market Operator.

The calculation for this Charge Type is as follows:

Q = Quantity (kWh)
R = Rate (p/kWh) (to 4 decimal places)

Formula:

$$Q * R = \text{TTB}$$

Where Q is the quantity bought

This Charge Type will appear as a credit item on the Energy Balancing Invoice.

Although this Charge Type will be visible on all Energy Balancing Invoices, values will only be present on the Energy Balancing Invoice to the Market Operator and will be zero on all other Energy Balancing Invoices.

4.1 Transco Trade Buy Gas Cost Charge Adjustments

Adjustments for Transco Trade Buy Gas Costs will be invoiced via the Ad-Hoc facility within the Energy Balancing Invoice.

The Charge Type which will facilitate adjustments to Transco Trade Buy Gas Costs will be:

B91 Ad-Hoc Transco Trade Buy Gas Cost

4.2 Transco Trade Buy Gas Cost Neutrality Impacts

All Transco Trade Buy Gas Costs and their associated Ad-Hoc adjustments will be classified as 'energy balancing charges' and will therefore be apportioned via the prevailing Balancing Neutrality mechanism.

4.3 Transco Trade Buy Gas Cost VAT Implications

All Transco Trade Buy Gas Costs and their associated Ad-Hoc adjustments will be subject to VAT at the standard rate (17.5%) and will be self billed items.

5.0 Transco Trade Sell Gas Cost

Charge Type = TTS

Transco Trade Sell Gas Costs are incurred when Transco is the counterparty to a trade Sell with the Market Operator.

The calculation for this charge type is as follows:

Q = Quantity (kWh)

R = Rate (p/kWh) (to 4 decimal places)

Formula:

$$Q * R = TTS$$

Where Q is the quantity sold

Although this Charge Type will be visible on all Energy Balancing Invoices, values will only be present on the Energy Balancing Invoice to the Market Operator and will be zero on all other Energy Balancing Invoices.

5.1 Transco Trade Sell Gas Cost Charge Adjustments

Adjustments for Transco Trade Sell Gas Costs will be invoiced via the Ad-Hoc facility within the Energy Balancing Invoice.

The Charge Type which will facilitate adjustments to Transco Trade Sell Gas Costs will be:

B92 Ad-Hoc Transco Trade Sell Gas Cost

5.2 Transco Trade Sell Gas Cost Neutrality Impacts

All Transco Trade Sell Gas Costs and their associated Ad-Hoc adjustments will be classified as 'energy balancing charges' and will therefore be apportioned via the prevailing Balancing Neutrality mechanism.

5.3 Transco Trade Sell Gas Cost VAT Implications

All Transco Trade Sell Gas Costs and their associated Ad-Hoc adjustments will be subject to VAT at the standard rate (17.5%).

6.0 Flex Mechanism

Charge Type = **FPT/FPS**

The Flex mechanism will be retained as a contingency measure. Both Charge Types (FPT/FPS) will be retained within the Energy Balancing Invoice, though both will have zero values.

7.0 Tolerance Changes

There will be changes to the existing tolerance levels applied to imbalance calculations under the new Energy Regime. The new tolerances will be:

- 2.25% of the Shipper's measured DM, VLDMC and commissioning VLDMC allocated output on the day
- 1.5% of the Shipper's allocated inputs on the day
- 6% of the Shipper's measured DMA allocations
- in addition to the NDM forecast deviation (if appropriate) calculated as now
- ATQ & CITQ will be calculated as now

8.0 System Prices

Imbalances will be cashed out using the following prices expressed in p/kWh.

SAP	System Average Price
SMP Buy	System Marginal Buy Price
SMP Sell	System Marginal Sell Price

Any imbalance beyond defined tolerances will attract a cashout at a differential price.

SAP will be calculated as the volume weighted average of trades conducted by all participants in the OCM on a given gas day, excluding any bids/offers that have been taken in relation to constrained buys and corresponding sells within one hour of the original buy action, up to the original buy action quantity.

For shippers under delivered outside of the tolerance level, the gas quantity beyond tolerance will be cashed out at **SMP Buy**, the higher of SAP and the highest price trade accepted on the OCM by Transco on that gas day, excluding any bids/offers that have been taken in relation to constrained buys and corresponding sells within one hour of the original buy action, up to the original buy action quantity.

For over deliveries outside of the tolerance level, the gas quantity beyond tolerance will be cashed out at **SMP Sell**, the lower of SAP and lowest price trade accepted on the OCM by Transco on that gas day, excluding any bids/offers which have been taken in relation to constrained buys and corresponding sells within one hour of the original buy action, up to the original buy action quantity

9.0 Credit Regime

Transco will act as a conduit for any monies belonging to the community, as a result of energy balancing operations. Transco's role is to limit the exposure of all players in the market to the risk of late or defaulted payments by any individual shipper.

- 9.1 Payment is due in line with current Network Code timescales as detailed in Section S, paragraph 3 and paragraph 3 of the Supplement.
- 9.2 Transco will make payment of all its net credits/debits on the due date.
- 9.3 For the purpose of calculating outstanding relevant balancing indebtedness (Network Code supplement, paragraph 2.5), the PRI charge will be defined as a relevant balancing charge.

Appendix 6

RGTA

DETAILED BUSINESS RULES

FOR

BALANCING INCENTIVES INVOICING REGIME

Version 2.0

CONTENTS

- 1.0 Introduction**
- 2.0 Invoicing**
- 3.0 Daily Incentive Amounts**
- 4.0 System Prices**
- 5.0 Credit Regime**

1.0 Introduction

This document describes the Invoicing and Billing rules for the Balancing Incentives aspects of the RGTA regime.

The document outlines the arrangements for the invoicing and settlement of Daily Incentive Amounts. It does not seek to restate the definitions, parameters and calculations associated with Daily Incentives which are set out in the legal text for this Modification report.

2.0 Invoicing

This section describes the Invoicing method which will become effective when the Balancing Incentives regime comes into operation.

- 2.1 All Daily Incentive Amounts will be invoiced via an Ad Hoc Invoice
- 2.2 The Ad Hoc Invoice will be issued monthly, and to the same timescales as the Energy Balancing Invoice.
- 2.3 File formats will be agreed.
- 2.4 Invoice disputes will be allowed up to eighteen months after the issue date of the invoice.
- 2.5 All rates will be calculated to four decimal places.
- 2.6 All charges will be made in pounds to two decimal places (i.e. in £ and pence)
- 2.7 Field sizes will be compatible with current Invoicing functionality.
- 2.8 Payment due dates will remain as they are now, i.e. twelve calendar days after the confirmation of receipt of the invoice.
- 2.9 The Ad Hoc Invoice code will be advised to Shippers six weeks in advance of the invoice.

3.0 Daily Incentive Amounts

There are two Incentive Schemes in operation, an Incentive Buy Scheme and an Incentive Sell Scheme. Each Scheme requires two Charge Types, one for charges to Shippers (where Transco earns a reward under the Incentive Scheme),

the other for credits to Shippers (where Transco makes a payment under the Incentive Scheme). These Charge Types will relate to the following charges:

Incentive Buy Scheme Debit
Incentive Buy Scheme Credit
Incentive Sell Scheme Debit
Incentive Sell Scheme Credit

Amounts due to/from Transco under each Charge Type will be calculated as a daily charge, and supporting information to allow validation of daily charges will be provided electronically. Amounts will appear as a monthly charge on the Ad Hoc Invoice.

3.1 Daily Incentive Amount Adjustments

Each of the Charge Types set out in paragraph 3.0 has 12 associated Adjustment Charge Types (one for each month), relating to the following charges:

Incentive Buy Scheme Debit Adjustments
Incentive Buy Scheme Credit Adjustments
Incentive Sell Scheme Debit Adjustments
Incentive Sell Scheme Credit Adjustments

Amounts due to/from Transco under each Adjustment Charge Type will be included on the Ad Hoc Invoice.

3.2 Daily Incentive Amount VAT Implications

All Daily Incentive Amounts and their associated adjustments will be subject to VAT at the standard rate (17.5%). Incentive Buy Scheme Credits and Incentive Sell Scheme Credits are self billed items.

4.0 **System Prices**

The prices which will be applied for the purposes of Balancing Incentives calculations , expressed in p/kWh are:

SAP	System Average Price
SMP BUY	System Marginal Buy Price
SMP SELL	System Marginal Sell Price

SAP will be calculated as the volume weighted average of trades conducted by all participants in the OCM on a given gas day, excluding any bids/offers which have been taken in relation to constrained buys and corresponding sells within one hour of the original buy action, up to the original buy action quantity.

SMP Buy is defined as the highest price trade accepted on the OCM by Transco on that gas day, excluding any bids/offers that have been taken in relation to constrained buys and corresponding sells within one hour of the original buy action, up to the original buy action quantity.

SMP Sell is defined as the lowest price trade accepted on the OCM by Transco on that gas day, excluding any bids/offers that have been taken in relation to constrained buys and corresponding sells within one hour of the original buy action, up to the original buy action quantity.

5.0 Credit Regime

Costs and revenues associated with Daily Incentive Amounts are outside the scope of the Energy Balancing regime, and are therefore managed under the Transportation Credit regime.

- 5.1 Payment is due in line with current Network Code timescales as detailed in Section S, paragraph 3.
- 5.2 For the purposes of settlement of the Ad Hoc invoice for Daily Incentive Amounts, credits and debits will be netted off. Shippers will be required to pay net debit invoices, and Transco will pay net credit invoices on the due date.
- 5.3 Debits and credits associated with Balancing Incentives may not be offset against debits and credits arising on the Energy Balancing Invoice.
- 5.4 All charges and credits associated with Daily Incentive Amounts will be included in the determination of Transportation Debt.

Appendix 7

Network Code Modification 305:

**Unmatched Renomination Trial Interim
Findings**

Nigel Sisman and John Wilson

Transco Commercial Operations

Tuesday 11th May 1999

Network Code Modification 305: Unmatched Renomination Trial Interim Findings

Key Points:

Data Availability

- Trial analysis covers periods:
 - 15th March to 30th April (for most data)
 - 15th March to 31st March (for closed out accounting data)
- Comparison is made to 1998 data where applicable
- Results of trial to date inconclusive due to only two weeks of closed out input data with around seven weeks of other data

DFN v AT-Link Data

- Average difference between DFN and AT-Link input nominations before the day lower during the trial than the period immediately before (1st January to 14th March 1999)
- Average difference between DFN and AT-Link input nominations within day appears to be slightly worse in the trial than before with DFN and AT-Link coming together late in the day at around 00:00 D
- Average absolute difference before the day appears to be slightly worse during the trial period than that seen for the same period last year
- Still large differences seen on days of significant price differential days such as April 8th 1999
- Therefore inconclusive evidence of any improvement or detriment to DFN/AT-Link information

AT-Link Nominated Imbalances

- The majority of the sample of 17 shippers comprehensively monitored (representing around 90% of system throughput) are nominating an imbalance position before and within day. The level of imbalance tends to reduce between 12:00 D0 and 00:00 D0 with around five of the sample maintaining an imbalance at end of day. The imbalances tend to be highest before the day and are slightly worse than the pre trial period
- The changes to shipper nomination imbalances from 02:00 D-1 to End of Day have on average been modest with changes being seen of the order of 0.5 and 1 mcm

- Of a sample of shippers monitored only around 10 have changed their nominated imbalance after 00:00 D0. These changes have typically been small and on average less than 1 mcm in size

- Majority of shippers seem to be responding to triggers in line with response seen pre trial. Therefore there is little evidence of any major change in nomination behaviour

Scheduling Performance

- Input scheduling performance improved slightly however VLDMC and DM output scheduling appear to be slightly worse.

Flexibility Usage

- There is some evidence that more flexibility has been taken during the trial period compared to a similar period last year. However, the extent of the increase in flexibility is insufficient to indicate that there is a definite change in usage.

Gas Trading

- Overall there has been a reduction in the number of trades recorded on AT-Link since the start of the trial however this needs to be viewed in the context of the increase in the number of NBP trades seen compared to a comparable period in 1998. There was a reduction in the number of trades and the energy traded around 1st April 1999 a pattern observed in 1998 but the percentage reduction was larger this year at 8% compared to 5% last year

- A small increase in the level of within day gas trading seen. Peaks occurring at the times of within day demand attribution. It is unclear whether there has been a migration of trades recorded on AT-Link from before the day to within day

- Again it is too early to draw any firm conclusions on the effect of the Modification on Gas Trading seen on AT-Link

Imbalance

- Imbalance levels in March 1999 were comparable to those seen in March 1998 with a slight increase in that gas sourced from the system through underdelivery

- Closed out input data is only available for the first two weeks of the trial therefore it is not possible to draw any firm conclusions in the area of shipper balancing

Neutrality Costs

- Neutrality costs only available for the first two weeks of the trial. Too early to make assessment on basic balancing costs. Neutrality for March 1999 saw a credit to the community of around £75,000 (0.00205 p/therm) compared to a credit seen in March

1998 of around £454,000 (0.0146 p/therm). It is too early to draw any conclusions with regard to the effect of the trial on basic balancing costs

Network Code Modification 305: Unmatched Renomination Trial Interim Findings

1. Background

The principle of matched renominations has been one of the key elements of the Network Code Energy Balancing Regime (EBR). The rationale for including a requirement to match input and output renominations within the Network Code was to encourage Shippers to maintain their imbalance position as set up ahead of the day. This approach was implemented to facilitate a limited form of cost targeting, since information resolution was insufficient to target costs directly at those Shippers causing balancing actions. Within the framework of the EBR shippers are commercially responsible for balancing their own supply demand with Transco ensuring the safety and security of the system. Under the matching nomination principle shippers could choose to adopt a nominated imbalance position. Once scheduled ahead of the gas day from 18:00 D-1 nominated imbalance positions could only be changed by the size of response (0 to 120%) to triggers generated by the demand attribution process. All other changes to both input or output physical nominations had to be matched. The incentive on Shippers to adopt a balanced position was the three price cashout mechanism that uses prices set from operation of the flexibility mechanism and scheduling charges.

Many shippers expressed the view that that matched renomination rule inhibited within day trading and was a barrier to them giving the best information possible to Transco for balancing decisions.

Network Code Modification 305 proposed by Scottish Hydro proposing a trial period for unmatched renominations was accepted by Ofgas and implemented on 15th March 1999.

The expected benefits of permitting unmatched renominations were:

- facilitating the provision of real-time information from Shippers to Transco via AT-LINK renominations
- aligning Delivery Flow Notifications (DFN's) more closely with AT-LINK nominations
- enhancing Transco's ability to make appropriate operational decisions, thus reducing the likelihood of unnecessary system balancing actions 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

Under the conditions of the modification there was an obligation on Transco to monitor the trial in terms of advantages or disadvantages of the implementation of the trial. These were defined as:

Potential Advantages

- Better information provision
- Improved Shipper balancing
- Reduction in overall shipper balancing costs
- Increased liquidity in traded gas markets

Potential disadvantages

- Increased operational uncertainty /risk
- Risk of increased overall system balancing costs
- Increased number of Transco balancing actions
- Create opportunity for Shippers to avoid some of the costs they generate
- Reduction in the quality of information provided
- Reduction in System operational efficiency

Parameters of a successful trial:

- Volume of the 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

The unmatched renomination trial began on 15th March 1999 and is now extended to 30th September 1999. As part of this trial Transco has undertaken to monitor the trial and report on the findings to the industry. This report provides an insight into the initial results of the trial. Where possible comparison of the trial data is made to data from a similar time period last year.

2. Initial Findings

This report is based upon data covering the date ranges:

- 15th March to 30th April (for most data)
- 15th March to 31st March (for closed out accounting data)

- Comparison is made to 1998 data were applicable

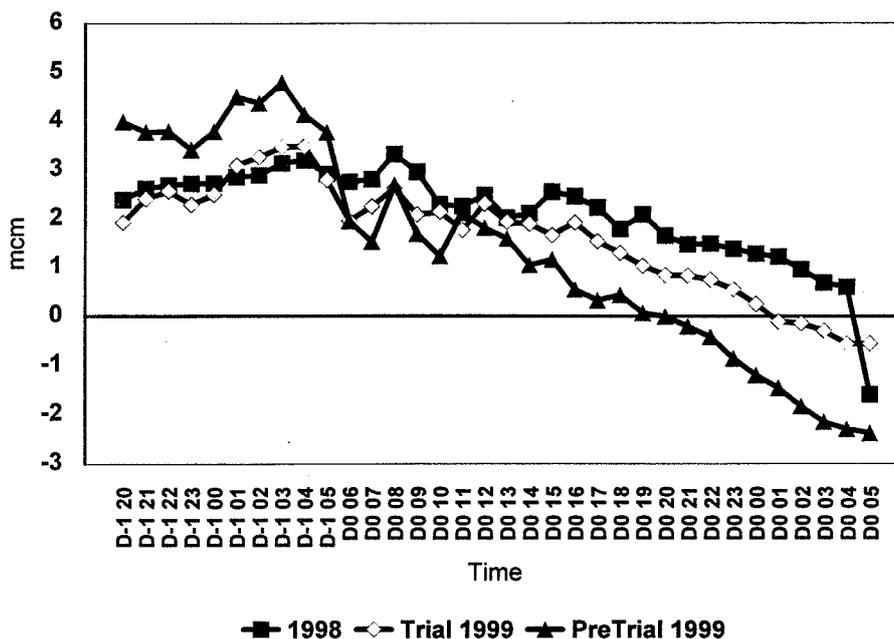
2.1 DFN/ AT Link Alignment

Transco uses the nominations provided by Terminal Operators the DFN's , by Shippers on AT-Link or a combination of the two to assess aggregate end of day gas deliveries into the System, these together with assessments of demand are the key elements in determining balancing action requirements. Over the three years of operation of the EBR Transco has reported on significant differences between DFN and AT-Link nominations and the resulting uncertainty in determining the balancing requirements.

During the trial Transco has been monitoring these differences and comparing them to the period immediately before the trial and also to a similar time period from the previous year. The average difference between DFN and AT-Link have been determined and also the number of observations outside of 95% confidence levels as a statistical check. To average and standard deviation used in this assessment were determined for the time period 1st March 1998 to 31st May 1998.

The average difference between DFN and AT-Link before the day has decreased from those levels seen from 1st January to 14th March 1999 where at 02:00 D-1 average differences of around 4 mcm were seen. The average difference seen before the day during the trial as decreased to levels seen in the March to May period in 1998 (Figure 1). Differences between DFN and AT-Link appear to remain until very late in the day not coming together until 00:00 D. In the period 1st January to 14th March 1999 the DFN's and AT-Link came together in the early evening around 18:00 D. Based on average differences and compared to the previous year the differences between DFN and AT-Link appear to have improved.

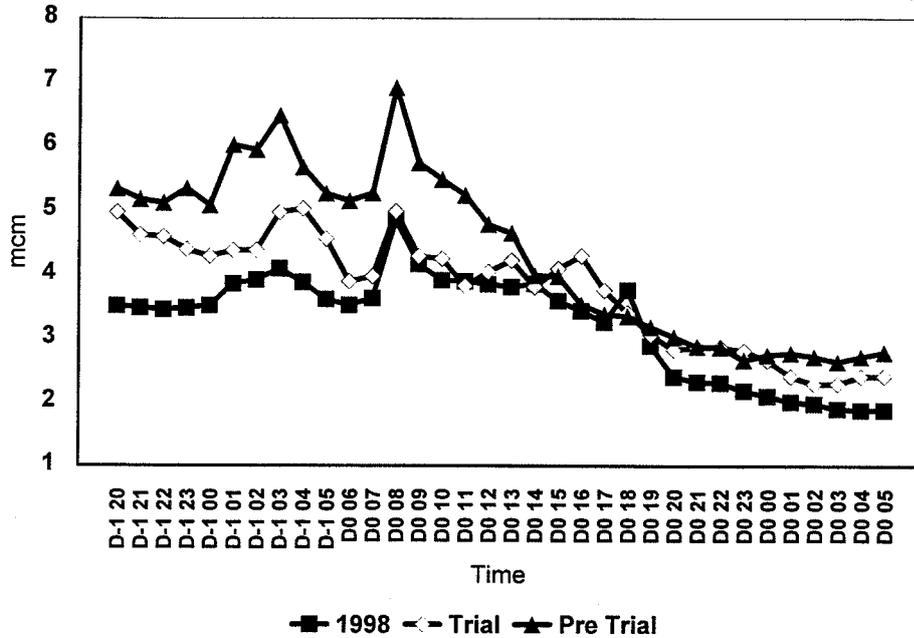
Figure 1 Average DFN/LINK Difference



However during the trial based on System level information confidence intervals there have been 221 observations outside of the 95% confidence levels out of a total of 1700 observations (13% of observations). This may be indicative of the fact that the uncertainty implied by DFN and AT-Link differences has increased. At Terminal and Sub Terminal level there have been more occurrences but these may be related to swapping arrangements between terminals.

Simply looking at the average difference between DFN and AT-Link can be misleading due to the netting. A more meaningful assessment is to look at the absolute differences. DFN and AT-Link should ideally match. A time lag will inevitably exist due to the timing issues around information flows. The average absolute difference between DFN and AT-Link has been found to be marginally worse before the day during the trial period when compared to a similar period last year (Figure 2). Peaks can clearly be seen at around 03:00 D-1 and 08:00 D.

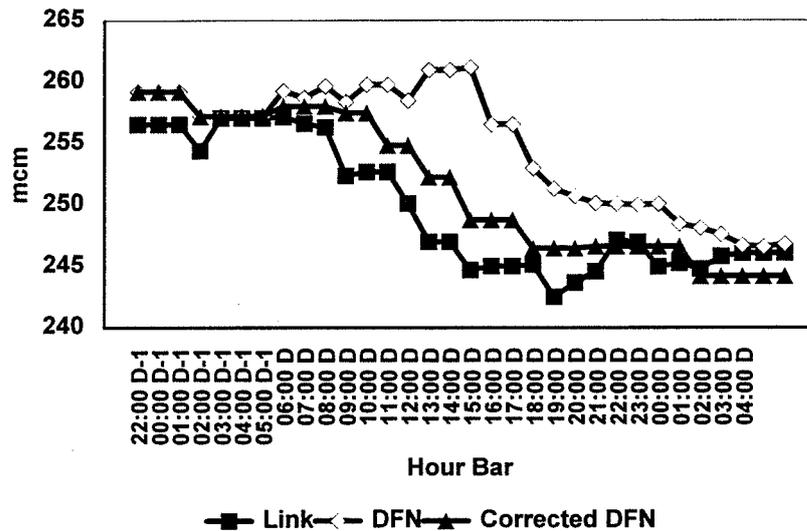
Figure 2 Average Absolute DFN/LINK Difference



These reflect the large number of actions taken at these times and the fact that AT-Link automatically creates a nomination for accepted flexibility whereas the DFN will inevitably follow sometime later.

Significant differences have been observed on days of relatively large price differentials. An example of this was April 8th 1999. Within day there was a SAP/Day Ahead Spot differential of the order of 0.03 p/kWh (0.9 p/therm). At 15:00 D the difference between DFN and AT-Link was of the order of 15 mcm. The graph in Figure 3 shows the actual DFN / AT-Link trace and an assessment of the expected level the DFN's. The basis for the DFN expected level takes account of flexibility and response to demand changes seen on the day. The result of this difference was that at 15:00 D information flows implied either a large sell or a large buy depending on which was applied. In this instance there was no supply loss situation so the Grid Operations Controller (GOC) applied judgement factoring in expected delays in the feed through of information related to AT-Link nomination changes as an adjustment to the prevailing DFN's. The result was an expected end of day linepack within bandwidth and so no action was taken at this time.

**Figure 3 DFN/ AT-LINK DIFFERENCE
8th April 1999**



At present it is too early to say whether DFN and AT-Link differences are reducing. The absence of significant price differentials could be the reason that modest improvements have been seen of assessment is made on a simple average. However absolute differences may infer a slight deterioration in information.

2.2 Shipper Nomination Imbalances

Nomination imbalances for a range of shippers have been monitored during the trial at various times during the gas day and compared to historical data. The majority of shippers in the sample taken are now nominating an imbalance position (Figure 4) and there also is some evidence of following of the commercial signals within the regime.

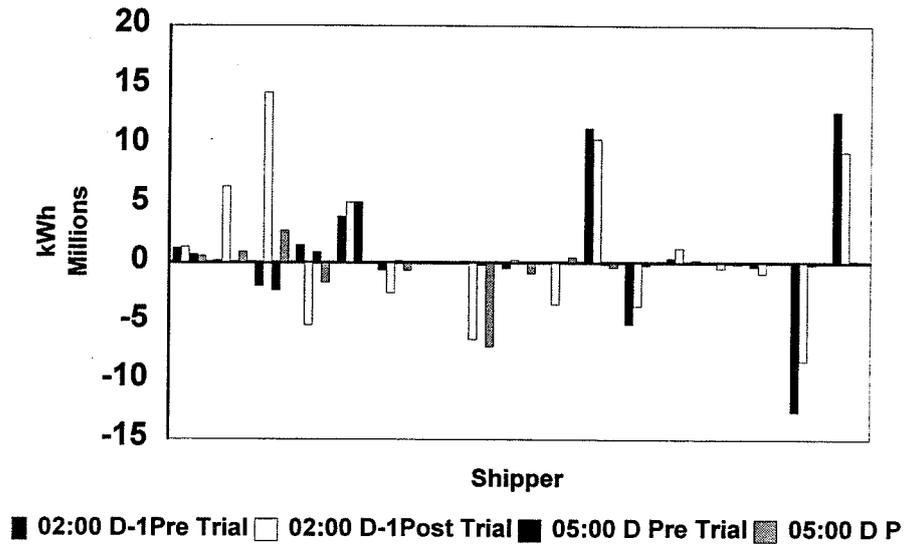
The majority are also on average changing their nominated imbalance from 02:00 D-1 to End of Day to a greater degree than before the trial, however these changes are modest with a highest average of around 1 mcm (Figure 5).

The community were concerned that there would be a risk of shippers changing their nominated imbalance late in the day to reflect a true position and that this would result in Transco having to take unnecessary balancing actions within day. Evidence to date suggests that out of the sample of shippers taken around half are changing their imbalance position but on average only by a very small amount (Figure 6).

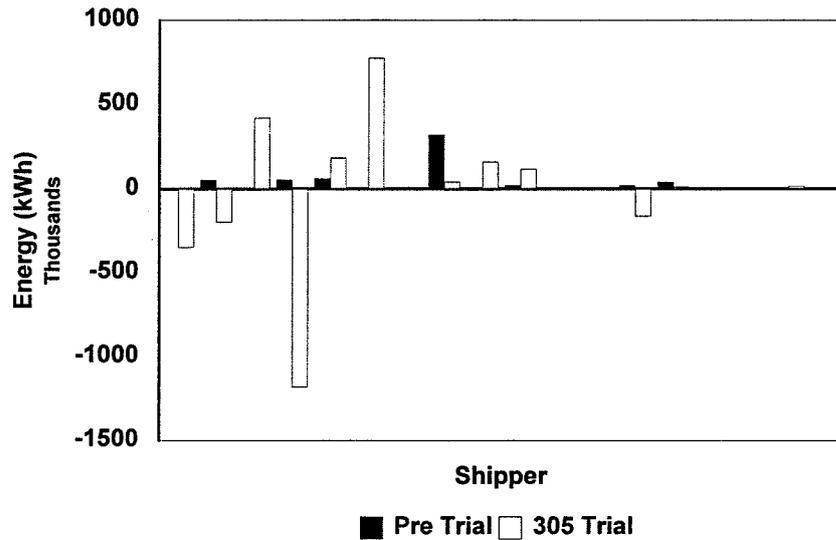
In terms of response to demand attribution there appears to be little change pre and post trial implementation.

It is too early in the trial to draw any firm conclusions from this analysis area.

**Figure 4 Average Nomination Imbalance Position
Period 01/01/99 to 04/05/99**



**Figure 6 Average Nomination Imbalance Change
00:00 D to End of Day**



2.3 Scheduling

One of the suggested benefits of unmatched renominations was improved information being available to Transco and also a improvement in scheduling performance. Analysis has been carried out into both input and output scheduling. The percentage error is based on the absolute scheduling difference. The basis for the scheduling performance is:

$$\text{Sched \%} = ((\text{End of Day Allocation} - \text{End of Day Nomination}) / \text{End of Day Nomination}) * 100$$

For input scheduling due to input close out it has only been possible to assess the performance for March 1999 which includes the first two week of the trial (Figure 7). The average input scheduling error was 0.64% compared to 0.9 % for the period 1st March to 31st May 1998 indicating a modest improvement. Further analysis needs to be carried out in this area when April and May 1999 are closed out to assess the robustness of this observation.

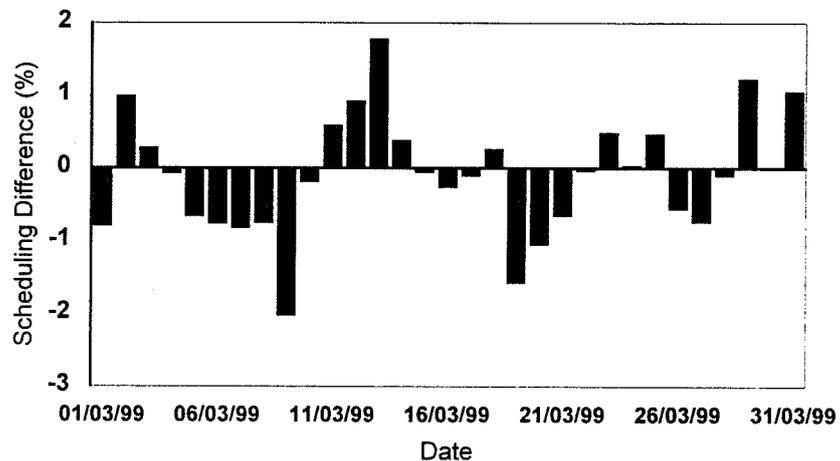
Output scheduling performance for the period 1st March to 28th April 1999 has been assessed and for Very Large Daily Metered Customers (VLDMC's) the average error was 0.96% (Figure 8) compared to 0.79% seen in the period 1st March to 31st May

1998 thus indicating a slightly worse performance (Figure 9), although this needs to be interpreted in the context of the very limited data set.

For Daily Metered (DM's) supply points the average error from 1st March to 28th April 1999 was 3.52 % compared to 3.28 % for the period 1st March to 31st May 1998 again indicating a slightly worse performance. Around the end of March beginning of April in the trial period the error approached 10% with a tendency to over nominate. From around the 8th of April this reversed to a tendency under nominate. This volatility makes interpretation of the data extremely difficult and it may be premature to state that the DM nomination performance has deteriorated.

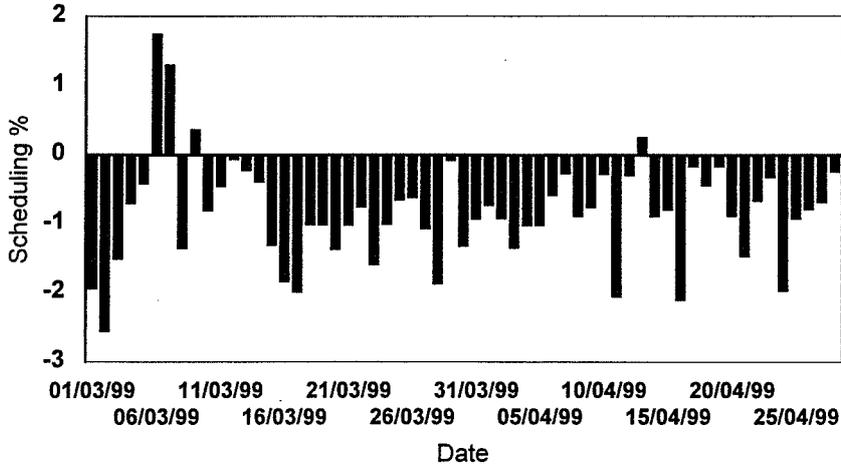
In summary mixed messages are coming out of the scheduling analysis to date with input showing a slight improvement and output a slight worsening.

**Figure 7 System Level Input Scheduling
01/03/99 to 31/03/99**



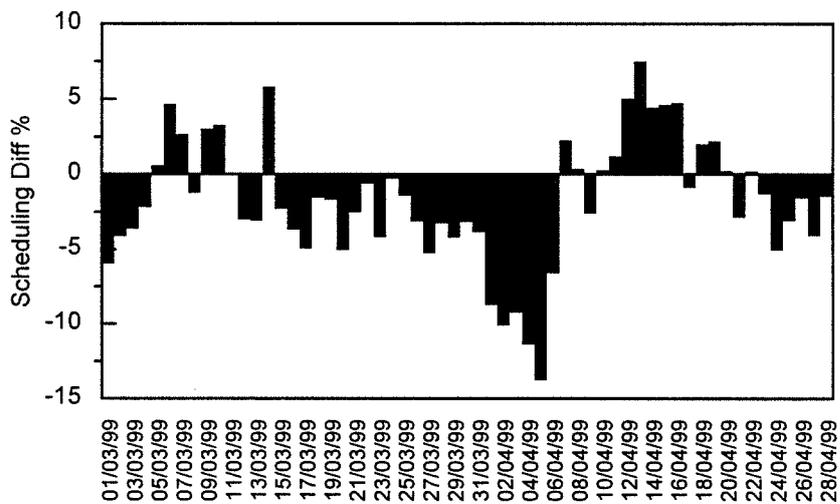
Scheduling % = $(\text{Allocation} - \text{Nomination}) / \text{Nomination} * 100$
Average Error = 0.64%

**Figure 8 Aggregate VLDMC Scheduling Performance
01/03/99 to 28/04/99**



Scheduling % = ((Allocation - Nomination) / Nomination) * 100
Average Error = 0.96%

Figure 9 Aggregate DM Scheduling Performance



Scheduling % = ((Allocation - Nomination) / Nomination) * 100
Average Error = 3.52%

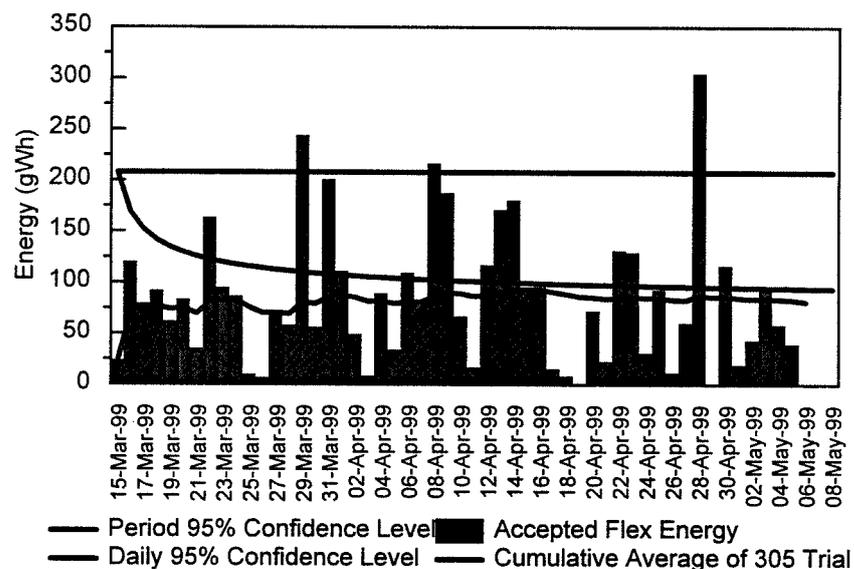
2.4 Flexibility

The level of flexibility actions being taken during the trial has been assessed. The number of actions taken up to 30th April 1999 was 170 compared to 196 for the same period in 1998. It should be noted however that for the trial period there is an additional demand attribution run at 13:00 D that was removes the opportunity to take within day flexibility for supply demand balancing at 13:00 and 14:00.

The average size of daily flexibility taken in the trial period to 30th April was around 9 mcm compared to a daily average of 7 mcm in for the same period in 1998.

The flex usage in the trial has been assessed against two 95% confidence levels. These have been derived by determining the average and standard deviation from a similar time period in 1998. The upper 95% level shows that in around 50 days of observations there have only been three days over. The 95% confidence level derived over the period of observation shows that the cumulative average of flexibility taken is approaching the confidence level and is indicating possibly more flexibility being taken than would be expected.

Figure 10 Flex Usage Analysis - MOD305 Trial

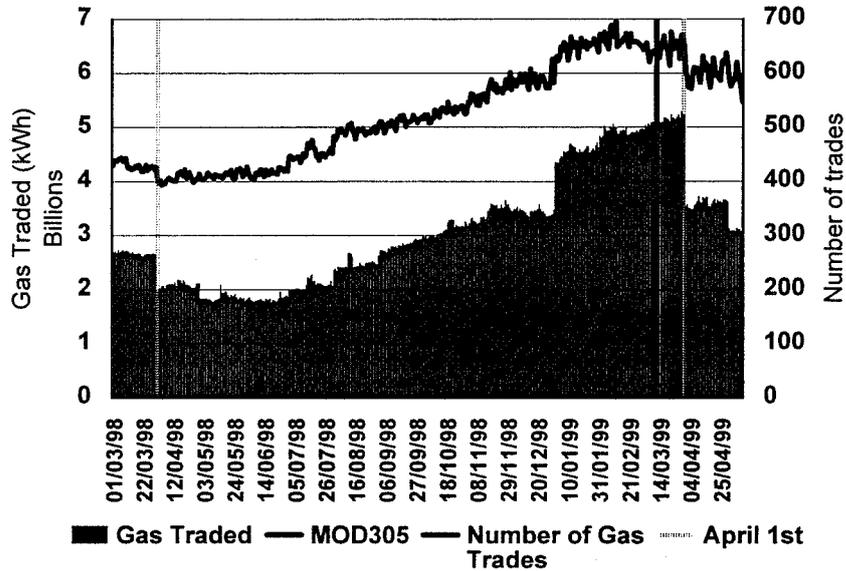


2.5 Gas Trades

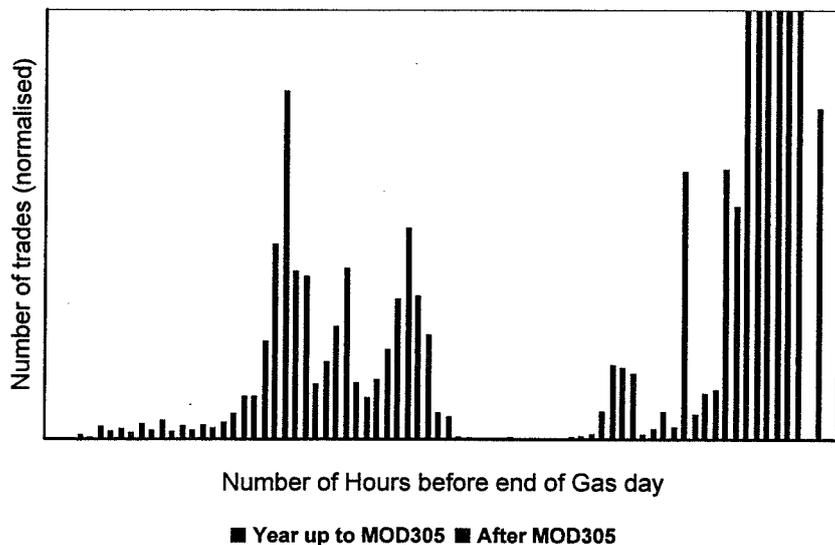
Overall there has been a significant drop in the number of NBP Trades seen coinciding with 1st April 1999. This feature has been observed last year but the reduction this year is larger at 8% against 5% last year. The same pattern is reflected in the energy traded (Figure 11). The reduction observed is more likely to reflect seasonality in trading behaviour.

Early indications suggest that there has been a modest increase in the number of within day gas trades seen on Transco's AT-Link commercial system. The peak increases in these trades is seen around the within day demand attribution time. It is however possible that a timing delay is being observed here with trades that would have been nominated and approved before the day now being completed within day (Figure 12).

Figure 11 Quantity of Gas Traded by Day



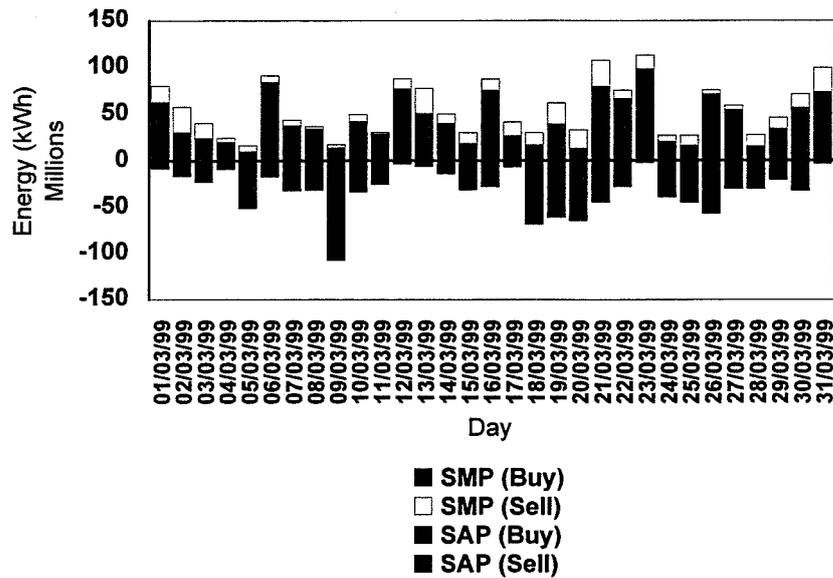
**Figure 12 Number of Trades by Hour
1st Jan to 4th May**



2.6 Imbalance

In aggregate the level of overall imbalances is comparable to that seen last year. There is a slight increase in the levels of gas sourced from the system however the bias remains towards over delivery (Figure 13).

Figure 13 System Level Imbalance



2.7 Neutrality

Total neutrality for March 1999 was a credit to shippers of around £75,000 (0.00007 p/kWh/0.00205 p/therm) compared to a credit to shippers in March 1998 of around £454,000 (0.0005 p/kWh / 0.0146 p/therm). In the absence of any further closed out data apart from the first two weeks of the trial (included in March 1999 data) it is not possible to draw any firm conclusions on the effect of the Modification on shippers basic balancing costs.

3 Conclusions

Due to the limited amount of closed out accounting information it is too early to draw any firm conclusions with regard to the impact of Modification 305 on basic balancing costs.

In terms of information available to Transco to effect balancing decisions there are mixed messages coming out of the trial. Changes in nomination behaviour have been observed although these have been modest. Scheduling performance measures are exhibiting both favourable and detrimental features; input (all be it only covering March and the first two weeks of the trial) showing a slight improvement but output scheduling at VLDMC and DM level showing a modest deterioration in performance.

There is some evidence of increased usage of flexibility although there is insufficient information to indicate that there is a definite change in this area.

In terms of gas trading seen on the AT-Link system there has been a reduction in the number of trades and energy being recorded since the start of the trial but this is likely to be due to seasonal effects than directly attributable to the modification. There is a

slight change in the timing of trades being observed which may reflect a possible migration of trades from before the day to within day.

Nigel Sisman and John Wilson

Transco

Commercial Operations

11th May 1999

