

14th April 2008

Transportation Network Code Proposed Modification 6 Final Modification Report

1 Introduction

BGE(NI) (“the Transporter”) has prepared this report in accordance with Sections 3 and 4 of the BGE(NI) Transportation Network Code Modification Rules.

2 Proposed Modification

Background

The DPO’s have developed a common Code Modification to reduce the quantity of Balancing Gas required to be bought or sold and subsequently to reduce the cost of Balancing the NI Network.

Based on analysis of historic imbalance behaviour of Shippers transporting gas on the NI Network, one of the main factors which may influence Shipper balancing behaviour is the difference between the UK SAP (System Average Price) and the NI DGP (Northern Ireland Daily Gas Price).

The NI DGP for a day is primarily based on the buy/sell price of any gas bought or sold that day. On days where there are no balancing actions, the DGP is the weighted average cost of purchasing and/or selling Balancing Gas over a ninety one (91) Day period ending at the end of the Day (D) in respect of which the relevant charge using the Daily Gas Price is made (the DGP91). Generally for the majority of the days in the month the DGP is based on the 91 day average rather than the price of gas bought or sold on a day, i.e. there are fewer days in a month where balancing actions are taken than no balancing actions taken. The UK SAP for a day is the weighted average of all gas traded on the UK transmission system on that day.

This DGP91 average price can diverge significantly from the UK SAP Price, and there is potential for Shippers to use this variation as a valid means to leave excess gas on the system or to off-take more gas from the system than has been entered, resulting in an increased cost for Balancing Gas actions taken by the Transporter.

The goal of this Modification is to limit the number of Balancing Gas actions necessary and therefore reduce costs to Shippers.

Modification Proposal

The Transporter’s Initial Modification Report proposed changes to how the DGP is determined, by removing the 91 day average calculation for the Balancing Gas Price, and replacing it with the UK SAP Price. In addition, as a result of Industry comments on the other DPO’s Initial Modification Report, it is also now proposed to include provisions for the unlikely event of the UK SAP Price not being available on a day (or for a number of days). The proposal is to use the arithmetic average of the SAP for each of the 7 preceding days. See proposed legal drafting in Schedule 1 of this document.

It is also proposed to amend and clarify section 4.3.3. of the BGE(NI) Transportation Network Code. This drafting allows for reduction of a Shipper’s Exit Point Tolerance (EPT) in circumstances where there have been repeated negative imbalances. The Transporter believes that this should be extended to also include positive imbalances.

The Transporter also proposes to amend the drafting in section 4.3.3. to clarify the number of times a Shipper's EPT can be reduced within a month. The Transporter proposes to clarify the drafting such that a Shippers EPT can be reduced only once in any Month where that Shipper has had a Positive or/or Negative Imbalance which exceeds its EPT for four consecutive days or for six days in that Month.

3 Representations or objections made by any Consultee

No written comments were received by BGE(NI) on Initial Modification Report circulated to industry on 21st Dec 2007. The Modification Proposal was presented at the NI Industry meeting in Belfast on 18th Feb 2008 and discussed. Feedback was received from industry at this meeting.

4 Amendments following Consultation Period

As a result of the industry feedback and discussions at the NI Industry meeting, some changes have been proposed to the original Code Mod Proposal as follows:

- Provision added to drafting to cover the case where the UK SAP Price is not available on a day. The proposal is to replicate the UK arrangements in this case which determine a back-up price based on "*the arithmetic mean of the System Average Price...for each of the 7 preceding Days*".
- As a result of discussions at the NI Industry meeting, it was anticipated that the Authority would direct BGE(NI) and the other DPO's to suspend section 4.3.3 of the BGE(NI) Code relating to reduction of Exit Point Tolerance due to repeated negative and/or positive imbalances, until such time as an analysis has been carried out on the effectiveness of this penalty clause. It has since been agreed between the DPO's and the Authority to include wording in the Network Code to this effect (see drafting in Schedule 1).

5 Final Modification Report submitted:

14th April 2008

6 Transporter's Opinion of the Code Modification

The Transporter supports the proposal as it has been discussed with industry (including NIAUR and the DPO's) as it is intended to reduce the number of balancing actions required on the NI Network and hence reduce overall costs to Shippers.

7 Impact on other Designated Pipeline Operator's Network Codes:

The Transporter has developed this modification in conjunction with the other DPO's and it is understood that PTL are preparing a similar modification thus ensuring consistency between the NI Network Codes.

8 Sections and parts of the Code that would require amending

See Schedule 1 at the end of this document for details of the proposed drafting changes to the BGE(NI) Transportation Network Code.

9 Likely Implementation Date:

The Transporter proposes an implementation date of 1st April 2008 or any alternative date as proposed by the Authority.

SCHEDULE 1

The proposed changes to the BGE (NI) Transportation Network Code are outlined below.

4. BALANCING AND SCHEDULING CHARGES

4.1 Introduction and Definitions

4.1.1 Each Shipper shall, for each Gas Flow Day, use all reasonable endeavours to ensure that such Shippers Entry Allocation with respect to an Exit Point is equal to the Shippers Exit Allocation in respect of the same Exit Point.

4.1.2 The Transporter shall use reasonable endeavours to ensure the physical balance of the Transportation System.

4.1.3 A common daily price (the “**Daily Gas Price**”) will ~~apply be calculated by the Upstream Operator for the NI Network and shall be by reference to balancing actions on the NI Network based on:~~

~~(i) Firstly, the weighted average of the pence per kWh price or prices (as appropriate) of Balancing Gas purchased and/or sold by the Upstream Operator and Balancing Gas purchased and/or sold by the Transporter;~~

~~(ii) secondly, if the Daily Gas Price calculated in accordance with (i) above is zero, be calculated as the weighted average cost of purchasing and/or selling Balancing Gas over a ninety one (91) Day period ending at the end of the Day (D) in respect of which the relevant charge using the Daily Gas Price is made; and~~

~~(iii) thirdly, if the Daily Gas Price calculated in accordance with (ii) above is zero, (i) firstly, equal to the System Average Price (as defined in the GB Uniform Network Code) on the relevant Day (as defined in the GB Uniform Network Code);~~

~~where the weighted average shall, for the purposes of (i) and (ii), be the aggregate of all purchases and/or sales (price per kWh multiplied by amount in kWh purchased or sold) divided by the total amount in kWh purchased and/or sold.~~

(ii) secondly, where for any Day the System Average Price is not available, the Daily Gas Price for that Day shall be equal to the arithmetic mean of the System Average Price for each of the seven (7) preceding Days; and

(iii) lastly, where for any Day for any reason the Daily Gas Price is not available under section 4.1.3 (i) or cannot be calculated under section 4.1.3 (ii), or if it is disputed, then the Daily Gas Price for that Day shall be such alternative price as the Transporter may reasonably determine.

4.1.4 All Shippers transporting Natural Gas on the Transportation System will be cashed out at the Daily Gas Price.

~~4.1.5 If for any reason the Daily Gas Price is not available or is disputed then Shippers will be cashed out at such alternative price as the Transporter may reasonably determine.~~

4.3 **Balancing Charges**

4.3.1 On any Day on which a Shipper has a Positive Balance a charge shall, subject to Section 6.11.2, be payable to it of the aggregate of the value of:

- (a) an amount of Balancing Gas up to or equal to the Exit Point Tolerance calculated at the Daily Gas Price; and
- (b) any amount of Balancing Gas exceeding the Exit Point Tolerance calculated at the lower of the Daily Gas Price multiplied by 0.7 and the System Marginal Sell Price on the relevant Day (as defined in the GB ~~Unified~~-Uniform Network Code)

4.3.2 On any Day on which a Shipper has a Negative Balance it shall, subject to Section 6.11.2, pay an amount equal to the aggregate of the value of:

- (a) an amount of Balancing Gas up to or equal to the Exit Point Tolerance calculated at the Daily Gas Price; and
- (b) any amount of Balancing Gas exceeding the Exit Point Tolerance calculated at the higher of the Daily Gas Price multiplied by 1.7 and the System Marginal Buy Price on the relevant Day (as defined in the GB Uniform Network Code)

4.3.3 This section 4.3.3. shall only apply with effect from such date (being no earlier than 1 April 2009) as the Authority may notify to The Transporter. If a Shipper has a Negative Balance and/or Positive Balance which exceeds its Exit Point Tolerance either on four (4) or more consecutive Days or on any six (6) Days in any Month, the Transporter shall reduce its Exit Point Tolerance by one half, until such time as the Shipper has avoided a Negative Balance and/or Positive Balance for five (5) consecutive ~~d~~Days at which point its Exit Point Tolerance shall be reinstated at the original level. This reduction of a Shipper's Exit Point Tolerance, pursuant to this section 4.3.3, will occur only once in any particular Month.